



Congressional Commission on Servicemembers and Veterans Transition Assistance

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January 14, 1999

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Anthony J. Principi

The Chairmen and Ranking Minority Members
The Committees on Veterans' Affairs, Armed Services and National Security
The Senate and House of Representatives of the United States
Washington, D.C.

Vice Chairman

G. Kim Wincup

Dear Chairmen and Ranking Minority Members:

Executive Director

Robert L. Stein

I am pleased to present the final report of the Congressional Commission on Servicemembers and Veterans Transition Assistance. This report includes our findings on the adequacy and effectiveness of servicemembers' and veterans' transition assistance programs, our recommendations for their improvement, and our determination of the feasibility and desirability of consolidating the departments and agencies bringing those programs to life.

Commissioners

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Edgar A. Chavarrie
James B. Davis
Ronald W. Drach
Mack G. Fleming
Thomas E. Harvey
Christopher Jehn
Richard W. Johnson
Renee L. Priore
Robert L. Stephens, Jr.

This report could not have been completed without the support of the Congress, the assistance of the Departments of Defense, Veterans Affairs, Labor and the Small Business Administration, the input of veterans' and military service organizations, and the participation of hundreds if not thousands of servicemembers and veterans. We appreciate the sometimes extraordinary pains taken by organizations and individuals to assist the Commission in its deliberations and debate. We specifically and gratefully acknowledge the personal cooperation of the leadership of Departments of Defense, Veterans Affairs and Labor in providing the Commission with information, and more importantly, in detailing skilled, knowledgeable and dedicated staff. Commission staff and departmental detailees, both civilian and uniformed, performed Herculean labors in obtaining and analyzing information and in transforming the Commission's findings and decisions into the final report. We are particularly indebted to the Office of VA's General Counsel for their assistance in preparing draft legislative language of the Commission's recommendations.

The Commissioners' belief that servicemembers and veterans represent a unique and invaluable human resource for America's society and economy was re-enforced by our interaction with members of the Armed Forces and veterans throughout our land. Our Nation has an obligation to provide servicemembers and veterans with the means to take advantage of the opportunities protected and preserved through their service. If we succeed, America will also reap the harvest of their post-service lives. We believe that this support is evidence of the importance placed by our Nation on that critical task.

Therefore, and pursuant to title VII of the Veterans' Benefits Improvement Act of 1996 (Public Law 104-275), I am pleased to report to the House and Senate Committees on Veterans' Affairs, Armed Services, and National Security on the Commission's findings and recommendations on the adequacy and effectiveness of programs and services provided to servicemembers and veterans and on the feasibility and desirability of consolidating their administration.

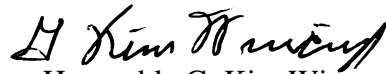
Respectfully,


Anthony J. Principi

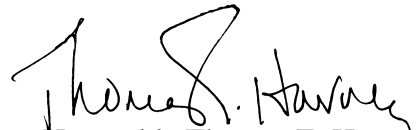
CONGRESSIONAL COMMISSION ON SERVICEMEMBERS AND VETERANS TRANSITION ASSISTANCE


*Submitted
to the
United States Congress
this
January 14, 1999
Approved by:*

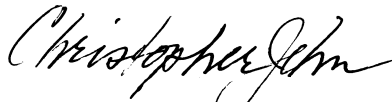

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*Christopher Jehn, member of the Commission, sought and accepted employment with the Congressional Budget Office (CBO) in February 1998. He is currently the Assistant Director of CBO for National Security. Accordingly, since joining CBO Mr. Jehn—in order to avoid any conflicts of interest—abstained from the Commission's final voting and decision-making concerning its recommendations to the Congress. In addition, Mr. Jehn will recuse himself from any involvement in the process of any CBO analysis or comment whatsoever on the topic areas covered by the recommendations of the Commission.

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EXECUTIVE SUMMARY

Many of the benefits and services provided to the men and women now leaving active duty are rooted in programs and organizations that were established in the closing days of World War II, more than half a century ago. Since that time, profound changes have occurred in the Nation and the Armed Forces and in the individuals who serve in uniform.

In response to these changes, Congress established the Commission on Servicemembers and Veterans Transition Assistance in title VII of the Veterans' Benefits Improvement Act of 1996 (Public Law 104-275). Congress directed the Commission to review programs that provide benefits and services to veterans and to servicemembers making the transition to civilian life and propose steps to ensure the programs' adequacy and effectiveness in meeting their needs, both now and in the 21st century. Congress tasked the Commission to propose improvements and determine the feasibility and desirability of consolidating the organizations administering benefits. Congress called for this review, not because it questions the need for benefits, but rather because it knows the importance of "doing it right." The Commission's review of benefits and services is the most comprehensive since that of the Bradley Commission in 1956. In some cases, benefits and services have become so outdated, and program management so ineffective that they break faith with those who served, and currently serve, their Nation in uniform. Accordingly, this report will propose fundamental and far-reaching reforms to both programs and the governmental organizations administering them.

Congress called for this review, not because it questions the need for benefits, but rather because it knows the importance of "doing it right."

Without a military draft, the security of the United States will depend upon the ability of our Armed Forces to recruit large numbers of highly qualified volunteers to operate the increasingly complex technology and conduct the rigorous operations required for national defense in the century to come. The Services have been both downsized and tasked with increased operational tempo. Almost all servicemembers are high school graduates. Almost 60 percent are married, and many have children. Approximately one servicemember in six is now a woman. Separating servicemembers reenter an economy that has changed since 1945 from one based on manufacturing and agriculture to one dominated by services and information. Veterans of military service are increasingly rare in the ranks of America's decision-makers in government, business, labor, academia, and the media. Homeownership and postsecondary education have become expected attributes of the middle class. However, the relative value of veterans' benefits in these areas has been reduced by enactment of educational assistance and housing programs available to all Americans, not just veterans.

Benefits and services for current and former members of the Armed Forces must meet several objectives. Some directly help current and former servicemembers readjust to civilian life. Some offer mitigation or delayed compensation for the hardships of military duty or for opportunities lost or deferred when a young American accepts the challenges of military duty. Compensation, treatment, and rehabilitation for injuries or illnesses incurred while on active

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duty, for example, serve to mitigate the effects of military service. In addition, benefits and services for separating or separated servicemembers serve as an important incentive for recruiting Americans into military service and retaining them on active duty. Most benefits and programs serve all of these goals to some degree, with the emphasis shifting as circumstances change in the Nation and among the men and women who serve in uniform.

The Commission views our Nation's military personnel as a unique national resource. In the 21st century our Nation must fulfill its moral obligation to those who commit themselves to our defense and capitalize on our investment in their training and development. To realize this vision, Congress must—

- ◆ Provide transitioning servicemembers with the means and opportunity to succeed in their civilian lives and to invest their talent and ability in the American economy.
- ◆ Meet their needs resulting from the special conditions of military service.
- ◆ Support the Nation's ability to raise and maintain effective forces.

As a guiding principle, the Commission has adopted the goal that each individual servicemember and veteran should have as much control as possible over decisions affecting his or her life. The Department of Veterans Affairs (VA), the Veterans' Employment and Training Service (VETS) in the Department of Labor (DOL), the transition offices of the Department of Defense (DoD), and other organizations serving veterans and servicemembers exist to meet the individual's needs, not vice versa. The lines limiting organizational jurisdiction and authority should be invisible to the servicemember or veteran crossing them.

The Commission believes that servicemembers and veterans themselves are ultimately responsible for the success of their transition to civilian life. The Commission believes that they must have full access to—and the means to take advantage of—the opportunities they protect through their service. The common threads in the Commission's recommendations are access to opportunity, means to take advantage of opportunity, and transparent boundaries between organizations implementing the programs that offer access to, and the means to use, opportunity.

America will do the servicemembers and veterans of the century to come no service by providing them with the finest of benefits if those benefits are tailored to the needs of a century gone by. In order to prosper, our country must make maximum use of the skills, experience, and character that both define veterans of military service and equip them, as civilians, to be a unique national resource. The Federal Government and the Nation, as well as servicemembers and veterans, will be the beneficiaries of this report if the Congress accepts the challenges offered by the changing times and the recommendations formulated by the Commission in response to them.

In order to prosper, our country must make maximum use of the skills, experience, and character that both define veterans of military service and equip them, as civilians, to be a unique national resource.

Commission Work

The Commission created three panels to collect and analyze information relating to servicemembers and employment issues, veterans' benefits issues, and healthcare. Of course, each Commissioner was free to participate in the activities and deliberations of every panel. The Commission conducted 8 hearings with senior officials from DoD, VA, DOL, SBA, and OPM as well as public policy institutes and the mortgage banking community. In addition, the Commission conducted 19 informal roundtables with issue experts, program participants, executive branch personnel, and veterans and military service organizations.

Commission members visited 41 military and veteran related sites in the United States, the Far East and in Europe and spoke with, and listened to, literally thousands of servicemembers and veterans. Commission members attended conventions and meetings of veterans' service organizations at the national, state, and local level. The Commission met with, briefed, and listened to, the leadership of virtually all of the major veterans and military service organizations.

The Commission established a "blue-ribbon" advisory group of nationally recognized healthcare experts for advice in formulating its healthcare recommendations. The Healthcare Advisory Group included two former Congressmen, a former Surgeon General of the Army and Chief of Staff of a VA medical center, a former Commanding General of the Army's Medical Service Corps, a former VA Undersecretary of Health, a former Domestic Policy Advisor to the President, a former Director of Public Health for two states, and a former Deputy Assistant Secretary of Defense for Military Manpower and Personnel Policy.

The Commission also commissioned a study of the barriers to veterans' employment presented by civilian licensure, certification, and apprenticeship requirements and The Gallup Organization surveys of servicemembers, recently separated veterans, disabled veterans and employers.

As a result of these efforts, the Commission now offers more than 100 recommendations addressing issues in areas ranging from education and employment to healthcare, economic equity, and organizational structure.

Education

If employment is the door to a successful transition to civilian life, education will be the key to employment in the information age. The Commission strongly believes that an opportunity to obtain the best education for which they qualify is the most valuable benefit our Nation can offer the men and women whose military service preserves our liberty.

The Commission is very concerned that current benefits no longer accomplish this goal because of changes in our Nation since enactment of the visionary Montgomery GI Bill. Of the servicemembers who, unlike their non-veteran counterparts, forego \$1,200 in pay and sacrifice years of their lives to earn education benefits, fewer than half are able to further their education. This gap largely reflects the growing disparity between the education benefit and college costs after they leave active duty. An effective veterans' education benefit must respond to the fact that the average price of a college education has quadrupled in the last 20 years, growing nearly twice as fast as inflation.

The Commission therefore proposes that Congress truly empower veterans to “be all they can be” by enhancing the Montgomery GI Bill to create an additional benefit for individuals who complete 48 months of honorable active duty. The enhanced benefit would pay for full tuition, fees, and books and would also provide a monthly subsistence allowance to attend any institution of higher learning in America for which they qualify. A veteran's ability and

It is absolutely unacceptable that the unemployment rate for newly separated veterans, men and women who are dedicated, mature, skilled, trained, disciplined, experienced, trustworthy and drug free, exceeds that of non-veterans the same age by over 20 percent

aspirations would then be the only limit to his or her post-service education. When veterans are given the means to pursue the best education for which they qualify, they will benefit from an increased range of post-service opportunities for the remainder of their lives.

In addition, the Nation will benefit as veterans return to and graduate from the selective schools from which its future leadership will be drawn. The World War II GI Bill has been credited with creating America's middle class and a generation of leaders who built and sustained a modern and free America. The enhanced Montgomery GI Bill proposed by the Commission would ensure that the middle class and America's leadership continues to include veterans.

This benefit would provide Americans, no matter what their background, with an opportunity to improve their future through a quality education earned as a result of military service. Just as America's veterans need an education, America needs educated veterans.

At a time when our Nation is at risk because the Services are increasingly not meeting their recruiting and retention requirements, an enhanced and properly structured education benefit would be a powerful incentive for high-quality college-bound high school graduates to consider military service as a path to higher education. This recommendation would increase the quality as well as the number of men and women attracted to military service. The DoD Youth Attitude Tracking Survey confirms that college attendance is a dominant goal for high school graduates and their parents, and that military service is increasingly viewed as a detour around college enrollment, not as a way to achieve it. This is not hard to understand when Congress appropriates billions of dollars for non-veteran education programs that are available to any American without enduring the risks and sacrifices inherent in military service. A veterans' education benefit conditioned on military service must offer a substantial advantage over programs available to all Americans if the benefit is to influence the decisions of college-bound high school graduates.

The Commission also recommends allowing servicemembers to transfer this education entitlement to a family member, a benefit that would encourage retention of highly qualified career servicemembers.

In addition, Commission recommendations would improve the current Montgomery GI Bill for individuals who enlist for less than 4 years—by increasing the monthly benefit amount to \$600, allowing accelerated payment for costly courses, and repealing the requirement for a \$1,200 pay reduction. The Commission further recommends transforming the role of the State

Approving Agencies to include responsibility for outreach and assistance in removing barriers to the recognition of military training and education. As well, the Commission recommends modernizing the process for periodic verification of continued attendance.

Employment and Training

It is absolutely unacceptable that the unemployment rate for newly separated veterans, men and women who are dedicated, mature, skilled, trained, disciplined, experienced, trustworthy and drug free, exceeds that of non-veterans the same age by over 20 percent.

The programs and institutions entrusted with the responsibility for veterans' employment have failed. The almost \$200 million committed by the Congress each year for veterans' employment programs is not well spent. These programs and institutions must be reformed.

The Commission notes that only about 300,000 of the 2 million veterans who register with the state employment services obtain employment through the disabled veterans' outreach program specialists or the local veterans' employment representatives funded by DOL. According to DOL's 1997 Annual Report, only 12 percent of veterans who registered with the Employment Service obtained permanent employment. Fewer than 1 percent of job-seeking veterans receive the case management services (which make a single program representative responsible for services from intake through employment) intended for veterans with barriers to employment. The Commission is outraged by the fact that, according to DOL's 1997 Annual Report, nine states meet DOL performance standards while placing fewer than 10 per cent of veteran registrants. The Commission strongly believes that this performance is an inadequate return on program costs of \$157 million per year. The Commission strongly recommends replacing these programs with restructured services that would offer two forms of assistance: case management support for veterans with the highest priority for service and job search skills, employment facilitation and marketing for the great majority of job-ready transitioning servicemembers. The Commission further recommends that grants for the restructured services be awarded to local service providers through competitive bidding, with winning bidders held strictly accountable for satisfying performance-based outcome measures, such as the number of veterans hired and nature and duration of employment. To do anything less would perpetuate a failed and expensive system with exorbitant overhead.

The Commission further recommends that Congress establish effective operational outcome measures as well for Veterans' Employment and Training Service in DOL. The Commission recommends that the Congress determine the feasibility of combining these programs with veterans' programs administered by VA if these goals are not achieved within 2 years.

Veterans who are newly separated, disabled, or burdened with a barrier to employment should be given priority, in the Commission's judgment, for all federally funded employment and training programs for which they qualify.

The Commission is outraged by the fact that, according to DOL's 1997 Annual Report, nine states meet DOL performance standards while placing fewer than 10 per cent of veteran registrants.

EXECUTIVE SUMMARY

The Commission finds that the transition assistance programs offered to servicemembers by the military services play a critical role in preparing them for their post-service lives. However, these programs must be improved and adequately funded. The Commission believes that a servicemember has earned at least 8 hours devoted to individualized preparation for civilian life. The Services currently spend substantially less on transition preparation per servicemember than the fee for a 3-day Department of Agriculture career transition workshop for federal civilian employees.

In the Commission's view, veterans who are disabled as a result of injuries or illnesses incurred or aggravated while on active duty represent an absolute obligation for the Nation. The Commission finds, however, that the program intended to enable these veterans to secure employment has proven ineffective in achieving this goal. Congress long ago established employment as the purpose and goal of VA's vocational rehabilitation and counseling program, but VA has failed to implement this direction. With 87 percent of its participants enrolled in college training, the program gives credibility to critics who argue that it has become little more than an alternative education benefit. VA has set a goal of a 57-percent success rate by the year 2003. The Commission finds this goal unacceptable. If VA has not made significant improvements in achieving the program's employment purpose in 2 years, the Commission recommends that responsibility for delivering program services be opened to full competition by outside entities.

Believing that veterans represent an unrecognized and underutilized resource for employers, the Commission recommends an improved, veteran-centered computerized labor exchange combined with an identification of barriers to civilian credentialing and certification of military training and education. The Commission also recommends a systematic marketing program to inform employers about the opportunities veterans represent. Together, these recommendations would increase employers' awareness of veterans' skills and the character attributes they offer, help employers meet their need for highly qualified employees, and support veterans' efforts to obtain suitable employment promptly.

The Commission recommends as well that DoD, VA, and DOL make veteran-hiring records a factor when evaluating bidders' proposals for the award of federal contracts. It also recognizes the obstacles that impede the Federal Government's ability to capitalize on the skills and experience of retired Regular officers. It recommends repeal of the current requirement for a reduction in retirement pay when a retired Regular officer accepts federal civilian employment. In addition to equitable treatment of men and women who devoted their careers to the Nation's defense, this change would help the government meet its need for the skills, knowledge, experience, and ability of retired officers in its operations and commercial relationships with contractors and consultants.

Healthcare

Healthcare is an important concern for servicemembers, both for themselves and for their families, when they make the transition from military to civilian life. It becomes a dominant concern for servicemembers who are ill or disabled when released from active duty.

The men and women who serve, or have served, our Nation in uniform now look to two separate healthcare systems for their healthcare. The DoD and VA healthcare systems have combined budgets of over \$32 billion. However, resource constraints, changing demographics

in the military and veteran population, changes in the delivery of healthcare, and other factors will challenge the ability of the two systems, as now structured, to meet the healthcare needs of their beneficiaries in the century to come. The Commission questions whether the two systems can survive on their current course unless they either receive a dramatic infusion of additional funding or they are fundamentally restructured. The Commission believes that a

Projections of \$62 million in sharing agreements are inadequate for systems with combined budgets exceeding \$32 billion.

true partnership between the two Departments offers a mechanism for the necessary restructuring and believes that it is absolutely essential that the cultural and institutional barriers separating the two systems be broken down. The price for a failure to act quickly and decisively will be paid by an increasing numbers of beneficiaries who will be forced to turn elsewhere for their healthcare.

Commission recommendations propose improved medical coverage for newly separated veterans and their families, for homeless veterans, for beneficiaries of VA-funded private sector care, and for military retirees who become eligible for Medicare. The Commission proposes, for example, that separating servicemembers and their families be offered affordable healthcare by allowing them to remain enrolled in the DoD TRICARE program during the transition between military service and civilian employment.

Servicemembers and veterans obtain medical care from both the military healthcare system and the VA healthcare system. Commission recommendations seek to expand and improve partnership between the systems and establish an environment fostering increased efficiency. The Commission believes that neither system can succeed without the other. Resources will be too constrained for either system to ignore the physical, human, and intellectual capital available through the other. In the Commission's view, projections of \$62 million in sharing agreements are inadequate for systems with combined budgets exceeding \$32 billion.

Commission recommendations would increase the opportunities, incentives, and rewards for increased partnership in the procurement of pharmaceuticals, medical and surgical supplies, and equipment. VA and DoD currently operate redundant procurement organizations and thereby unnecessarily increase their overhead costs. They also forego opportunities to negotiate lower prices by combining their purchasing power. The Commission recommends that DoD and VA create a single joint purchasing organization for these products. The Commission believes this recommendation alone would result in 5-year savings of almost \$2 billion and would, therefore, dramatically increase the number of beneficiaries served by the two Departments.

If the two Departments are to become effective partners, they must be able to freely exchange comparable and compatible clinical, management, and financial information. To create information systems that facilitate data exchange, the Commission recommends joint procurement of future information technology by the two healthcare systems. The Commission also recommends that the two healthcare systems develop comparable and compatible cost accounting systems capable of generating financial and management data necessary for leading a healthcare partnership.

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The Commission recognizes the importance of medical research and education to both systems and proposes ways to increase the VA/DoD partnership in this area. Research should be focused on the needs of the beneficiary populations, and the Departments should be able to reap full economic and public relations benefits when the fruits of their research have commercial applications.

In addition, to improve the climate for partnership, the Commission recommends establishing a resource allocation and budgeting process that would allow decision-makers to take into account the combined resources of the two Departments at every stage. To advance this goal, the Commission recommends making a single directorate in the Office of Management and Budget responsible for evaluating both the VA and the DoD healthcare budgets and combining congressional funding of the two healthcare systems into a single appropriations subcommittee in each body of Congress. The Commission also proposes that the leaders of the two healthcare systems be supported by a joint policy staff.

Commission recommendations would allow the two Departments to treat each other's beneficiaries on a reimbursable basis and would initiate a process to match the physical infrastructure of the two systems, considered as a partnership, to projected needs.

To increase convenient access to care that does not require copayments for DoD beneficiaries and to save DoD money, the Commission also recommends that DoD contracts for TRICARE recognize VA medical centers as equivalent to military treatment facilities.

Economic Equity

Some important benefits and services for servicemembers and veterans are intended to protect or improve their economic condition.

Savings are a vital resource for individuals seeking to take advantage of opportunities or meet unexpected needs. Unlike federal civilian employees and many private sector workers, servicemembers do not have access to an employer-sponsored tax-deferred savings plan. The Commission recommends that servicemembers be allowed to accumulate savings by participating in the Thrift Savings Plan now available to federal civilian employees. This opportunity will help servicemembers prepare for the future and enable them to take advantage of opportunities in both military and future civilian life. Authority to invest reenlistment bonuses in this tax-deferred savings plan would help increase retention of skilled mid-career military personnel.

Commission recommendations, if enacted, would mandate financial counseling for servicemembers early in active duty.

To conserve resources and speed up payments of veterans' disability compensation, the Commission recommends changes in the antiquated, backlogged, redundant systems for examining and evaluating the disabilities of individuals leaving the service who were injured or became ill while on active duty. For the short term, the Commission recommends use of a common physical exam by a combined DoD/VA disability evaluation board. For the long term,

Veterans should have full opportunities to participate in the American economy sustained by their service.

the Commission recommends that the two Departments identify the issues involved in unifying their separate disability compensation systems and prepare a unification plan, together with an analysis of the anticipated effects of implementation.

Veterans should have full opportunities to participate in the American economy sustained by their service. A Commission recommendation would increase opportunities for veterans who are, or want to become, small business owners. Access to information would be increased through education programs, an information clearinghouse, and a veterans' business database. Access to capital would be increased by establishing, within existing Small Business Administration (SBA) resources for the 7(a) loan program, a direct loan program for veterans with service-connected disabilities evaluated as 50 percent or more. Access to markets would be increased by including veterans with service-connected disabilities of 50 percent or more in the SBA 8(a) business set-aside program and by establishing veteran-owned business procurement goals for DoD, VA, and DOL.

The Commission recommends eliminating the 2 percent funding fee for VA guaranteed home loans and using a pilot program to test the effect of requiring lenders to take property back when guaranteed loan defaults occur. The Commission estimates that VA could save \$1.4 billion over 10 years if it had no property management responsibilities. A Commission recommendation would focus the benefits of VA's home loan guaranty program on transitioning servicemembers and veterans by limiting future beneficiaries to one use of the loan guaranty benefit.

Another recommendation would bring consistency to the service that qualifies veterans for non-service-connected disability pensions by setting an end date for the Persian Gulf War, which was fought in 1990-1991, and ending designation of the present period as "wartime service". A continuing statutory designation of "wartime" service in times of peace demeans the service of those who serve during times of war.

Organizational Structure

Servicemembers and veterans must now look to governmental organizations rooted in the past for programs and benefits. When new or modified programs have been developed, responsibility for their administration in many cases has often simply been added to existing organizational structures, thus avoiding the turbulence that would result from a fundamental restructuring of government agencies and their responsibilities. This organizational accretion process ultimately responds to the interests of organizations and bureaucracies, rather than the needs of beneficiaries. A focus on beneficiaries would change organizational configuration fundamentally, even if those changes mean consolidating programs or organizations.

In addition to the organizational changes already proposed, the Commission supports the modernization effort by VA's Veterans Benefits Administration (VBA). If VBA does not achieve reforms in its processes, information management, and infrastructure, the Commission recommends establishing an independent VBA Benefits Delivery Commission to address these needs.

The Commission also recommends improving VA information management by establishing a formal information business relationship between VA and DoD and creating an organizational element specifically responsible for managing and coordinating VA and Defense Manpower Data Center business processes.

EXECUTIVE SUMMARY

Commission recommendations noted here and earlier would emphasize service to beneficiaries and tear down some of the bureaucratic boundaries that have arisen over time, but much more work needs to be done.

Costs

The Commission proposes more than 100 recommendations addressing a total of 31 separate issues. Many of the recommendations are not budget neutral. Some would entail significant costs. Nevertheless, the Commission believes that the recommendations are sound and necessary and should be enacted on their merits. At the same time, the Commission places a high priority on identifying reforms that would improve the cost-effectiveness of benefits and their administration. Many recommendations propose increased efficiencies that would save resources. The Commission believes that resources made available through increased efficiencies should be used to increase the scope and quality of services to VA and DoD beneficiaries.

The successful transition of servicemembers to civilian life is essential. Failure to enact the programs necessary to achieve successful transition would do more than break faith with the men and women who defend our Nation's freedom. By creating disincentives to military service, such a failure would place the freedom of all Americans at risk. The budget surplus now enjoyed by the Nation was made possible in part by America's servicemembers and veterans. The Commission believes that it is appropriate, and in the financial and moral interest of the Nation, to use some of those funds to ensure servicemembers' and veterans' successful transitions to civilian life.

Conclusion

The Commission believes that enactment of its recommendations will serve the interests of the men and women in our Armed Forces, our country, and the taxpayers. If our Nation is to keep faith with the men and women who defend our freedom, the status quo must change.

These recommendations would improve servicemembers' transition and readjustment to civilian life and increase their opportunities to succeed in civilian life. Commission recommendations are not intended simply to solve immediate problems. The Commission instead proposes to transform fundamentally the nature of the benefits and services offered and to institutionalize reforms in their delivery.

The recommendations would serve the Nation's interests by capitalizing on the unique economic and human resource that former servicemembers represent and by increasing efficiency in use of the scarce taxpayer dollars available for servicemember and veteran programs.

At the same time, by making military service more attractive, the Commission believes that adoption of these recommendations would help the Services attract and retain the individuals of high caliber needed to preserve peace and, if necessary, to fight and win the Nation's wars.

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CHAPTER I: EDUCATION

OVERVIEW

The overarching goal of the Congressional Commission on Servicemembers and Veterans' Transition Assistance (the Commission) is to ensure that veterans of military service in the next century have the means to create success in life for themselves when their service concludes.

In an information economy, education is the key to achieving that goal. To achieve successful transitions, veterans of the 21st century must have access to high-quality education. If suitable employment marks a successful transition, education is the key to obtaining a good job.

This goal coincides exactly with the requirements of the Armed Forces. To defend the country in the 21st century, the Armed Forces must recruit large numbers of high-quality high school graduates of college caliber.

The chief vehicle for accomplishing these goals is the Montgomery GI Bill (MGIB), a direct descendent of the great World War II GI Bill that helped transform the Nation. In enacting the MGIB, a farsighted Congress under the inspired leadership of veterans' champions like Congressman G.V. "Sonny" Montgomery severed the link between wartime

To achieve successful transitions, veterans of the 21st century must have access to high-quality education.

service and education benefits. This action acknowledged that in the 21st century an education benefit is not mitigation for the rigors of war, but an essential tool that enables veterans to provide for the future in times of peace.

If the MGIB is to be judged a success in the future as well as in the past, the evidence must show that veterans are currently obtaining post-secondary education. The evidence must show that the military services are currently recruiting the high-quality high school graduates they need. The evidence must show that the Nation has enhanced its competitiveness by taking full advantage of the unique national resource represented by the self-disciplined, goal-oriented, steadfast team players developed through military service. The evidence must show that the leadership circles of government, academia, business, labor, and media are enhanced by the presence of veterans in their ranks.

Much has changed, however, since the monumental legislative achievement represented by enactment of the MGIB. The Cold War has ended and with it, the motivation of an obvious and direct threat to national security. However, although military forces have been reduced by one-third since the collapse of the Berlin Wall, deployments have actually tripled. The economy is booming and military recruiters compete with civilian employers in a very tight job market.

CHAPTER I: EDUCATION

As a result, the Services are having an increasingly difficult time meeting their recruiting goals. The Army and Navy missed their recruiting goals for fiscal year (FY) 1998. The GI Bill, as it is currently structured, can no longer compete successfully with other federal education assistance programs to attract America's college-bound youth, nor does it compete with employers for high school graduates seeking to enter the job market. Surveys of high school graduates and their parents reveal that military service is perceived as a detour around higher education, rather than as a pathway to campus.

Evidence also shows that although almost all recruits sign up for the GI Bill and demonstrate their commitment to education by accepting a \$1,200 reduction in their pay, fewer than 50 percent of veterans actually use GI Bill education benefits. If the purpose of the GI Bill is to get veterans into school, it is not accomplishing the task.

As a consequence of this factor and others, veterans are increasingly rare in the ranks of the Nation's leadership—in Congress, in the executive branch, in business, in the professions, and in the media. The Nation suffers when decisions with military implications are made without input from people with military experience. The Nation suffers when it is unable to take advantage of the unique national resource represented by veterans. The Nation's leaders daily make decisions on foreign policy, military operations, and even war and peace. If these decisions are to be made and influenced by people who know what military service and operations entail, then the graduates of the schools from which the leadership of government, academia, media, business, the professions, and labor are drawn must include veterans.

These are the difficulties the Nation faces. If they are to be met, changes must be made. The MGIB of the future must –

- ◆ Provide veterans with access to post-secondary education that they use.
- ◆ Assist the Armed Forces in recruiting the high-quality high school graduates needed.
- ◆ Enhance the Nation's competitiveness by further educating American veterans, a population that is already self-disciplined, goal-oriented and steadfast.
- ◆ Attract the kind of servicemembers who will go on to occupy leadership positions in government and the private sector.

The Commission intends to build on the actions of the visionaries who crafted the MGIB by proposing dramatic improvements in veterans' education programs. Improving the MGIB would fulfill the goals of those who have gone before, to the benefit of the Nation, the military services and, most importantly, to the benefit of the young men and women who assume the awesome responsibility of defending liberty.

ISSUE I.A - ENHANCE THE MONTGOMERY GI BILL

What is the adequacy and effectiveness of the All-Volunteer Force Educational Assistance Program and what is the program's role in the 21st century?

DISCUSSION

Background

The World War II GI Bill education program offered returning soldiers payment of tuition, fees, books, and supplies, along with a living stipend at the educational institution of the veteran's choice. Known as the MGIB, the current educational assistance available to veterans of the all-volunteer force pays a fixed monthly benefit of \$528 for full-time enrollment and requires a deduction from servicemembers pay of \$1,200 to be eligible for the benefit. The Commission's review of the legislative history of the Montgomery G. I. Bill demonstrates that H. R. 1400, the proposed Veterans' Educational Assistance Act of 1981 as introduced by Mr. Montgomery on January 28, 1981, did not include – or contemplate in any way – a pay reduction on the part of the servicemember as an eligibility requirement.

The Commission reviewed the legislative history of each of these educational assistance programs. Various forms of abuse of the WWII education program occurred at some institutions in large part because institutions billed VA directly for tuition, fees, books, and supplies of its veteran-students. Thus congressional enactment of subsequent veterans' educational assistance programs did not pay the veteran's tuition directly to the institution. The Commission believes that reductions in the value of the benefit were based on problems in the administrative delivery process, not on the belief that veterans were less-than-deserving of accessing higher education through VA payment of tuition and provision of a monthly subsistence allowance. The Commission believes that abuse will be less likely in the next century because of the smaller number of eligible veterans (compared to the post-World War II demobilization) and the standards and safeguards that have been enacted since the World War II GI Bill. The MGIB does not pay tuition, fees, books, or supplies – nor did the Korean, Vietnam-era, or post-Vietnam era GI education programs provide such assistance.

The Commission notes that a servicemember's pursuit of off-duty education and training opportunities can begin while on active duty through the tuition assistance program of the Department of Defense (DoD).

Dramatic Changes Since Enactment of the MGIB

Dramatic changes have occurred in the international, military, economic, and social environments in the 14 years since enactment of the MGIB in 1984. The number of uniformed military personnel has been reduced from 2.174 million in FY 1987 to 1.422 million in 1998.¹ Although reduced in size, America's Armed Forces continue to conduct operations and deployments at a rapid pace. Extended deployments and unaccompanied tours in locations

¹. *Military Strength Report*, News Release No. 474-98. September 11, 1998.

like Bosnia and Somalia often involve significant hardships.² Many potential recruits and their parents do not view assignments of this type as reasons to enlist, even if they entail a purely peacekeeping role.³ At the same time, unemployment is at a 28-year low,⁴ giving servicemembers and potential recruits attractive alternatives to military service.

The combination of the Armed Forces' reduced size and increased numbers of missions requires motivated and highly capable servicemembers,⁵ but it has become increasingly difficult for the Services to recruit and retain the servicemembers they need.

According to the *Christian Science Monitor*, "Five of the Army's 10 combat divisions lack enough majors, captains, noncommissioned officers, tankers, and gunners, according to a March 20 [1998] report by the General Accounting Office. Such problems have 'degraded [the] capability and readiness' of these contingents, which must reinforce troops fighting a first major regional war."⁶

Analysis

A New Approach for the 21st Century: Build on the Wisdom and Foresight of G.V. Montgomery

The current MGIB pays a fixed monthly benefit. The Commission believes that enhancing the MGIB to include payment for veteran students' tuition, books, and fees, plus a \$400 monthly subsistence allowance and elimination of the \$1,200 pay reduction will be necessary if the benefit is to achieve its goals of recruiting individuals into the Services and assisting in their subsequent readjustment to civilian life.

Testimony the Commission received supports the thesis that an enhanced education benefit would assist in (1) recruiting and retaining highly qualified personnel for the All-Volunteer Force, (2) helping members of the Armed Forces to readjust civilian life, and (3) including former servicemembers/veterans in the ranks from which America's leadership is drawn.

Recruiting

Most college-bound youth and their parents now see military service as a detour from their college plans. The propensity of youth to enlist in the Army has dropped 31 percent even after the success of Desert Storm.⁷

2. J. Eric Fredland et al., *Professionals on the Front Line—Two Decades of the All-Volunteer Force* (Washington: Brassey's, 1996), pp. 286-287.

3. Defense Manpower Data Center, *Youth Attitudes Toward Military Service in the Post Cold-War Era: Selected Papers Presented at the International Military Testing Association* DMDC Report No. 97-001 (San Antonio, Texas, 1996), p. A-4.

4. Honorable Al Borrego, Assistant Secretary of Labor for Veterans' Employment and Training, Executive Session of the Commission on Servicemembers and Veterans Transition Assistance, September 22, 1998.

5. Fredland et. al., p. 275.

6. Jonathan S. Landay, "Signs of Erosion In U.S. Military Readiness: Memo to Army Chief of Staff Warns That Long-Term Ability To Defend Is Under Threat," *Christian Science Monitor*, September 16, 1998, p. 2.

7. Fredland et. al., p. 64.

The 1995 Youth Attitude Tracking Study (YATS), an annual survey of 10,000 men and women aged 16 to 24 sponsored by DoD to provide a reliable measure of trends in propensity for military service, found that youth with college aspirations did not want to enlist in the military.⁸

YATS found that young Americans place a high priority on attaining a college education and are inclined to move directly from high school to post secondary education without taking time out for military service. Today, high school graduates qualify for financial aid without any national service, and therefore do not need to enlist in the Armed Forces to finance an education. The Department of Education's FY 1999 budget request proposes \$51 billion⁹ in total student financial aid to provide grant, loan, and work-study opportunities to more than 8.8 million students. In comparison with other financial aid (Stafford Loans, Pell Grants, tax-deferred college savings plans, so called "529" trusts,¹⁰ state grants, and private scholarships), the amount available under the MGIB is not enough to compensate youth for the time spent and risk involved in military service.

Thus, for many middle-class youth, the MGIB at its current level is not a sufficient incentive to enlist. Most college-bound youth and their parents see a tour of military service as a detour from their college plans, not as a way to achieve that goal.^{11 12} The high school graduates the military wants to recruit are choosing to go to college instead. The 1997 YATS confirmed the earlier 1995 YATS findings that the percentage of youth who will "definitely" or "probably" enter the Service continues to decline.¹³

Today, the Services face increasing difficulties in meeting their recruiting goals. Chairman of the Joint Chiefs of Staff General Henry H. Shelton's September 29, 1998, testimony to the Senate Armed Services Committee is instructive: "...the good news of the Nation's continuing strong economy has been bad news for our recruiting and retention as we have struggled to attract bright young people...."¹⁴ The Army fell short of its FY 1998 recruiting goals.¹⁵ The Navy missed its annual recruiting goal by about 6,892.¹⁶ The Coast Guard was using "kickers" for the first time in an attempt to meet its recruiting goals.¹⁷ The

⁸. Defense Manpower Data Center (DMDC), *Youth Attitudes Toward Military Service in the Post-Cold War Era*; Selected Papers Presented at the International Military Testing Association, p. A-5.

⁹. Department of Education, Summary of the FY 1999 Budget, http://www.ed.gov/offices/OUS/Budget99/Budget_Sum/pages/sum-1.html, p. 8.

¹⁰. "New Savings Plans Help Pay for College," *USA Today*, August 26, 1998, p. 3B. These accounts, called savings trusts or 529 plans after the section of the federal tax code that allows them, are sponsored by states and run by big money management firms.

¹¹. DMDC, *Youth Attitudes Toward Military Service in the Post-Cold*, pp. A-4, A-5, and A-6.

¹². Tom Philpott, "Interest in Military Service Wanes," *Proceedings [of the Naval Institute]*, September 1997, p. 122.

¹³. DMDC, June 11, 1998, p. xii., *Youth Attitude Tracking Study 1997: Propensity and Advertising Report*

¹⁴. Hearing on the Status of U.S. Military Forces, U. S. Senate Committee on Armed Services, September 29, 1998.

¹⁵. LTC Mack Gorgan, Recruiting Information, (e-mail) July 16, 1998.

¹⁶. Admiral Jay L. Johnson, Chief of Naval Operations, Hearing on the Status of U. S. Military Forces, U. S. Senate Committee on Armed Services, September 29, 1998, p. 19.

Air Force experienced difficulty in recruiting a strong economy.¹⁸ Each of the Armed Services acknowledges that the existence of the MGIB benefit is the principal enticement for recruiting new service personnel.^{19 20} However, recruiting shortfalls indicate that the benefit should be enhanced if it is to successfully assist the Services in recruiting the young men and women that they will need in the next century.

The Joint Chiefs of Staff believe a rejuvenated GI bill would help recruitment. At the September 29th hearing of the Senate Armed Services Committee, each of the Joint Chiefs responded positively when Senator Max Cleland asked if a rejuvenated GI Bill would help recruitment.

The college premium is rising. The Commission notes that the college premium, defined as the percentage difference between the average real wage of a four-year college graduate and that of a high school graduate, rose from 40 percent in 1979 to 65 percent in 1995. This trend suggests that for military service to remain a competitive option for high school graduates making plans for their future, the MGIB must provide sufficient benefits to encourage individuals to delay their college plans in favor of active-duty military service.²¹

Retention

The Services also report increased difficulty in retaining and re-enlisting men and women who are already on active duty. The Navy has not met its goal for either first or second term reenlistments since 1992 and the Air Force did not meet its goal for 1998.²² The Services have expressed concern that an improved education benefit might have an adverse affect on retention because it would provide an incentive to leave active duty in order to use the benefit. The Commission believes that this effect would not only be offset by a provision allowing a servicemember to transfer his or her education benefit entitlement to a family member but would also enhance retention.

Readjustment

Participation in the MGIB is low and lags behind the Vietnam-era GI Bill. Through FY 1997, some 13 years after the 1984 enactment of the MGIB, 48.7 percent of eligible beneficiaries used the MGIB.²³ From 1987 through 1997, VA reported a 37.3 percent participation rate. Vietnam-era GI Bill usage for the first 10 years (June 1966 to June 1976) was 63.6 percent.²⁴

17. Captain Percy O. Norwood, Jr., Director, Coast Guard Recruiting Center, Commission's Accession and Recruiting Roundtable, January 14, 1998.

18. Department of the Air Force, Air Force Recruiting Service, *Basic Military Training FY 96 Survey Report*, Randolph AFB, Texas, p. ii.

19. Education Roundtable Summary, Program Managers Subpanel, October 15, 1997.

20. Executive Summary, Roundtable Report on Accession and Recruiting, January 14, 1998.

21. Assistant Secretary of Defense (Force Management Policy), *Biennial Report to Congress on the Montgomery GI Bill Education Benefits Program*, May 20, 1998, p. 8.

22. Office of the Secretary of Defense (P&R), LtCol Earle, Recruiting and Retention, October 23, 1998.

23. Veterans Benefits Administration, Education Service, MGIB Enrollment and Usage Data, September 12, 1998.

24. Veterans Administration Information Bulletin 04-77-1, Appendix B, Table 13, June 1976, pp. 52 and 57.

Tuition costs have risen well above the average rate of inflation since 1980. From 1980 to 1995 average tuition and fees at public and private institutions rose 92 percent and 90 percent, respectively.²⁵ The GI Bill benefit did not increase at all from 1980 to 1985. From its inception in 1985 to 1995, MGIB rates increased 42 percent.²⁶ Further, during the school year 1995-1996, the MGIB covered only 36 percent of total costs and 65 percent of tuition and fees at average four-year colleges.²⁷ The adverse ratio between the cost of higher education and the benefits available to pay for it may be one reason why veterans are not using the benefit that they invested \$1,200 to obtain.

Servicemembers and veterans want greater purchasing power in the MGIB. Payment of the current benefit at a fixed monthly rate constrains veterans and servicemembers desiring to enroll in short-term career-focused technical courses. This constraint is especially acute if the cost of the course dramatically exceeds the benefits payable for the few months' duration of the course, even when the total amount of entitlement available to the veteran exceeds the cost.

Benefits to Society

An enhanced MGIB could close the college education gap between rich and poor servicemembers. The World War II GI Bill increased the country's social mobility by giving all veterans, rich and poor, access to higher education. However, a study commissioned by the U.S. Department of Education reported that family income is today a better predictor of college attendance than intelligence.²⁸ An enhanced MGIB could help close the college education gap between rich and poor by giving all high school graduates who serve their country in uniform for 4 years an opportunity to earn access to the highest quality post secondary education for which they qualify.

Fewer than 20 percent of those who use the MGIB attend private institutions. An enhanced MGIB would open the doors to those most select schools in America to the Nation's most deserving men and women who have served their country. Veterans can ill afford to attend expensive private institutions if that is their desire. None of the top 70 institutions that enroll the most veterans is a private institution.²⁹

Payment of tuition improves participation. Of the top 50 institutions in terms of veteran enrollment, those ranking 3rd, 14th, and 21st are in Illinois, a state that pays a substantial part of veterans' tuition at state schools.³⁰ The Commission applauds such state policies; however, the Commission views the education and training of its military veterans as a uniquely federal obligation. The Commission believes an MGIB that would pay tuition could have a similar effect nationwide.

²⁵ National Center of Education Statistics, Digest of Education Statistics, The Condition of Education 1997/ Supplemental, Table 12-3.

²⁶ Veterans Benefits Administration, Education Service, Strategic Review, 1997, p. 26.

²⁷ Assistant Secretary of Defense (Force Management Policy), *Biennial Report to Congress on the Montgomery GI Bill Education Benefits Program*, May 1998, p. 9.

²⁸ U.S. Department of Education, *Factors Relating to College Enrollment: Final Report*, 1998, p. 45.

²⁹ Department of Veterans Affairs, Education Service, printout of VA Student, School, State Data, 1998, pp 1-4.

³⁰ Ibid.

An Enhanced Montgomery GI Bill Represents an Untapped Opportunity for the Nation

Veterans are becoming increasingly rare in the ranks from which America's leadership is drawn. With an all-volunteer force, the broad spectrum of the American people will experience military service only if the Services are successful in recruiting volunteers from all segments of society. Instead, increasing evidence indicates that high school graduates who are intent on obtaining a college education see military service as a detour away from their goal, rather than as a means of achieving it. That evidence, combined with the fact that fewer than half of MGIB-eligible veterans use their benefits, means that veterans are becoming increasingly rare in the ranks of the college educated, the ranks from which America's leadership is drawn.

Since President Eisenhower's time, for example, the number of federal lawmakers with some military training has declined from 77 percent to 34.8 percent.³¹ Retired Chairman of the Joint Chiefs of Staff John M. Shalikashvili said, "It's not just a matter of fewer and fewer Congressmen and Senators having military experience. The same phenomenon exists in any roomful of bankers, or college presidents, or other opinion shapers."³²

It is good for the Nation. The Commission believes the MGIB represents an untapped opportunity for the Nation. An enhanced MGIB that would pay for tuition, books, fees, and a monthly subsistence allowance would differentiate, on the basis of quality of education, the educational assistance benefits earned through military service from benefits available to the general public.

The Commission believes such a program would create –

- ◆ A greater incentive for youth from middle class families to join the all-volunteer force, broadening the spectrum of individuals entering the military service and the ranks of America's veterans.
- ◆ Opportunities for veterans to "be all they can be" by enrolling in the schools of their choice, including America's best private institutions.
- ◆ Opportunities for individuals with military service to obtain the education they need to compete for top leadership positions in business, industry, government, and American society.
- ◆ For the 21st century, the Congress should build on the wisdom and foresight of Congressman G. V. Montgomery, who championed and was the primary architect of the current educational assistance policy, a policy that improved the benefits available for veterans of the all-volunteer force.

The World War II GI Bill educated an entire generation of Americans and many of the Nation's top political and business leaders. During the lifetime of the average World War II veteran, the U. S. Treasury received from two to eight times as much in income taxes as it paid out to the veteran in G. I. Bill education benefits.³³ If a similar GI Bill were in place today, the Commission believes that educated veterans would take their places among the leaders of the 21st century.

³¹. Kitfield, James, "A Few Good Men," *The National Journal*, June 13, 1998, p. 1351.

³². Kitfield, p. 1355.

³³. Department of Veterans Affairs, *History of the G.I. Bill: GI Bill 50th Anniversary*, June 1994, p. 7.

FINDINGS

- ◆ MGIB benefits cover a fraction of the cost of a contemporary education at an average four-year college. Current benefit levels reduce the ability of the program to assist separating veterans in their readjustment to civilian life by constraining their access to an education.
- ◆ College-bound youth and their parents see a tour of military service as a detour from college plans, rather than as a way to achieve a higher education. The MGIB is losing its effectiveness in providing college-caliber high school graduates with an incentive to join the Armed Forces.
- ◆ Veterans are increasingly rare in the leadership ranks of American institutions, including government, business, academia, and the clergy. If America's leaders are to include veterans of military service, it will be necessary for more veterans to have the means to attend the schools from which the leadership of America's institutions is drawn.
- ◆ Military service is America's most fundamental form of national service. An MGIB ensuring that the only constraints on veterans' education are their ability and ambition would attract the best and the brightest of America's youth to their Nation's service.
- ◆ There is an existing DoD policy titled, "Education Leave", that permits qualified servicemembers on active duty to pursue a college education for up to two years. During this period, members receive basic pay, but no allowances.
- ◆ The Commission believes that retention for select specialties would be greatly increased if the Military Services permitted servicemembers to take education leave from active duty.
- ◆ A more financially attractive MGIB would enable the Nation to fully capitalize on the unique national resource of veterans' skills, training, experience, and character.
- ◆ An enhanced MGIB would increase the Nation's social mobility by providing a way for high school graduates from low-income families to finance an education at the finest post secondary schools for which they qualify.
- ◆ The current VA vocational rehabilitation program provides tuition, fees, books, and supplies to disabled veterans who have an employment handicap. In fiscal 1997, 59 percent of veterans participating in VA's vocational rehabilitation program had disabilities rated at 30 percent or less. For 1997, it took VA an average of 100 days to decide a claim for vocational rehabilitation. The Commission believes that, given a choice, many of these veterans would opt to by-pass the up-front vocational counseling and testing because of the long delay in obtaining such testing and because of the limited nature of their disabilities.

RECOMMENDATIONS

The Commission recommends that Congress enhance the MGIB by providing a separate benefit for individuals who choose to enlist or re-enlist for a minimum of 48 months by enacting legislation to amend the MGIB to –

- ◆ Pay qualifying veterans the full costs of tuition, fees, books, and supplies, as well as a subsistence allowance of \$400 per month for up to 36 months (4 school years). The subsistence allowance would be indexed for inflation. Benefits also would be payable for non-institutional training (e.g., on-the-job/apprenticeship training and flight training).
- ◆ Provide this enhanced benefit without a \$1,200 payroll reduction.
- ◆ Provide the Services with discretionary authority to fund the transfer of this education benefit from the servicemember who earned them to a member of the servicemember's immediate family (i.e., spouse or children).
- ◆ Allow veterans 10 years from the date of separation to use this benefit.
- ◆ Specify that the subsistence allowance for this benefit would not count as income for the purposes of determining eligibility for federal educational grants and loans.

The Commission also recommends that Congress encourage the Services to allow servicemembers to take education leave from active duty.

BUDGET IMPLICATIONS - ISSUE I.A.1

1 st year costs	\$82 million
5 year cumulative costs	\$539 million

Underlying Assumptions

- ◆ 48 months of qualifying service.
- ◆ Enlistment for additional 4 years qualifies those already serving.
- ◆ 226,000 separations per year.
- ◆ Program begins in FY 2000; large numbers of trainees start becoming eligible in FY 2004; Department of Veterans Affairs (VA) assumptions used for disabled separations in FY 2001- FY 2003.
- ◆ Participation rate of 70 percent over 10 years.
- ◆ Reporting fees compare baseline to proposal in out-years; assumes MGIB fees decrease as enhanced MGIB participation increases.
- ◆ Assumes 10 percent of students switch institutions during the year; thus, reporting fee paid twice for 10 percent of trainees.
- ◆ Services limit use of "kickers" as a recruiting tool. Only 15 percent of the current 24,000 per year will receive kickers.
- ◆ Three-quarters time training for all trainees (historical VA data); three-quarters time applied to tuition, fees, books, supplies, and stipend.
- ◆ Costs for tuition and fees from *Digest of Education Statistics*, U.S. Department of Education.
- ◆ Annual costs of books assumed to be \$634 and inflated by the Consumer Price Index (CPI) in the outyears.
- ◆ 8.5 percent annual increase in education cost (historical economic data 1979-1997).
- ◆ 30 percent enrollment in private schools and 70 percent in public schools.

- ◆ One-half of new Vocational Rehabilitation and Counseling (VR&C)-eligible participants select MGIB. (Assumes all 10 and 20 percent and one-half of 30 percent will use MGIB because less VA control is associated with MGIB.)
- ◆ Basic benefits savings computed at \$528 per month.
- ◆ Stipend projected for 9 months per year.
- ◆ Payroll withholding of \$1,200 repealed for all accessions after date of enactment.

Additional Recommendations

The Commission recommends that Congress further amend the current MGIB for those who enlist for less than 48 months to:

- ◆ Absolve any balance of the \$1,200 pay roll deduction owed by active duty members effective the date of enactment.
- ◆ Increase the basic monthly benefit amount for full-time institutional training to \$600.
- ◆ Allow, at the beneficiary’s discretion, payment of accelerated “lump sum” benefits for an entire term, semester, or quarter at colleges and for the entire course for courses not leading to a college degree. Entitlement would be charged at the rate of one month for every \$600 paid.
- ◆ Allow servicemembers and veterans to elect MGIB if they were on active duty on October 9, 1996; if they were or had been VEAP participants at that time; and if they pay \$1,200 without regard to whether or not they had previously withdrawn their contributions to VEAP.

BUDGET IMPLICATIONS - ISSUE I.A.2

1 st year costs	\$483 million
5 year cumulative costs	\$1,831 million

Underlying Assumptions

- ◆ Program begins in FY 2000; those who –
 - ❖ Separate before enactment and contributed are eligible.
 - ❖ Separate before enactment but did not contribute are ineligible.
 - ❖ Are on active duty before enactment and contributed are eligible.
 - ❖ Are on active duty before enactment and did not contribute are ineligible.
 - ❖ Are new accessions with either 24 or 36 month enlistments after enactment are eligible.
- ◆ Participation growth rate of 10 percent over baseline.
- ◆ Adjusted baseline is baseline minus enhanced MGIB trainees.
- ◆ Absolve any balance of payroll withholding owed at time of enactment.
- ◆ Average payroll withholding for first year enlistees at time of enactment is \$600.
- ◆ Stipend projected for 9 months per year.
- ◆ Average attendance projected at three-quarter time.

- ◆ By VA estimate, 77,000 trainees eligible for payment advances based on current eligibility.
- ◆ Advance payments equal double monthly rate and double advancements per semester.
- ◆ 103,323 former VEAP-era participants eligible for benefits.
- ◆ 15 percent of VEAP-era participants elect MGIB.
- ◆ VEAP-era participants electing MGIB pay \$1,200.
- ◆ 10 year delimiting date for VEAP-era participants from date of enactment.

ISSUE I.B - REENGINEER APPROVAL PROCESS FOR VA-FUNDED EDUCATION PROGRAMS

Can veterans using their education benefits be better served if resources supporting VA education programs are redirected to promote and develop on-the-job and apprenticeship training?

DISCUSSION

Background

State-approving agencies (SAAs) are state agencies funded by VA to approve courses for VA education benefits. Their responsibilities include approval and reapproval of courses offered by reputable colleges and universities that are already accredited by regional accreditation associations. Congress created SAAs after World War II in response to abuse of the GI Bill. Since that time, waste, fraud, and abuse have been minimized. In 1990, VA abolished its problem school list because there had not been enough problem schools in the preceding 10 years to justify its existence.³⁴

Today, schools and courses are subject to review and evaluation by an increasing number of regional, professional, and trade accrediting bodies. Federal aid, such as Pell Grants and Stafford Loans, is available to students enrolled in courses accredited by accrediting bodies recognized by the U.S. Department of Education.

Since SAAs were established after World War II, substantial changes have occurred in both the methods for providing education and in the institutions offering courses and training. Post secondary education is now available on the Internet, through broadcast media and videotape on satellite campuses, and through noncampus programs. Institutions offering education and training have expanded beyond traditional schools to include commercial businesses providing rigorous specialized training leading directly to employment. For example, computer companies now offer “high-tech” nondegree courses, such as Certified (Computer) Network Administrator and Certified (Computer) Network Engineer. Graduates

³⁴. Congressional Commission on Servicemembers and Veterans Transition Assistance, Roundtable on State Approving Agencies and VA On-the-Job Training, Summary (SAA Roundtable), December 5, 1997.

of these courses are in high demand. Unfortunately, courses offered by private corporations whose main business is *not* education (e.g., Microsoft Corporation and Novell, Incorporated) cannot be approved for VA education benefits purposes.

With the emergence of distance learning instruction via the Internet and interactive and computerized programs and the globalization that has come with the information revolution, some argue that the statutory requirement for course approval by a state agency is out of touch with the current educational environment. There is an almost universal recognition that the world in general, the higher education community, and the VA's education programs have all failed to keep pace with technological change and the evolving teaching methods that accompany it.³⁵

Analysis

Proposed Role of the SAAs

SAAs recertify approved and accredited post-secondary institutions every 2 years. As a result, SAAs do not have the time to concentrate on new courses that may lead quickly to gainful employment.³⁶

School-approval criteria³⁷ should allow SAAs to concentrate on education providers requiring special oversight, including new providers of technical training. However, SAAs should have the discretion to review approved courses when there is a complaint or when they think there is reason to do so.

Greater Emphasis on On-The-Job and Apprenticeship Training and Distance Learning

Only 2 percent of MGIB recipients use their benefits for on-the-job training. SAAs operate at the state level and under current law are authorized to work with employers to both establish on-the-job/apprenticeship programs and approve them. The Commission believes that SAAs should spend increased time in this area. Doing so would enhance SAAs opportunities to assist in the placement of veterans, especially disabled veterans, with employers.

The Commission notes that SAAs are beginning to increase their efforts to encourage use of distance learning, apprenticeships, and on-the-job training benefits. Several states have developed models for outreach, including personal contact with potential employers and briefings for veterans, transition counselors, and servicemembers.³⁸

³⁵. Congressional Commission on Servicemembers and Veterans Transition Assistance, Education Roundtable Summary, October 15, 1997.

³⁶. Congressional Commission on Servicemembers and Veterans Transition Assistance, Notes on the Roundtable with the Commission's Military Personnel, April 8, 1998.

³⁷. Title 38 U.S.C., § 3670 through 3679.

³⁸. June 8, 1998, letter from Jane E. Battey, President, National Association of State Approving Agencies, to Anthony J. Principi, Chairman, Commission on Servicemembers and Veterans Transition Assistance.

FINDINGS

- ◆ Veteran students are generally more mature and experienced than nonveteran high school graduates and should be the primary judge of the appropriateness of accredited courses to their plans for the future.
- ◆ Veterans are poorly served by outdated and inflexible course approval standards that assume that a quality education is offered only in a traditional classroom setting by a traditional educational institution on a traditional campus. Course approval standards have not kept up with developments in courses or in the institutions, including businesses, offering them.
- ◆ Approval of institutions accredited by accrediting bodies recognized by the Department of Education should suffice for veterans' training approval.
- ◆ Unless abuse of veterans' benefits is suspected, SAAs need not routinely recertify approved and accredited institutions every 2 years.
- ◆ Unmet needs include education benefits outreach to separating veterans, assistance in removing barriers to employment created by state credentialing and licensure requirements, and promotion and development of on-the-job and apprenticeship training opportunities for veterans.
- ◆ SAAs need to develop procedures to approve institutions offering courses via distance learning.

RECOMMENDATIONS

That the Congress enact legislation providing that—

- ◆ Courses that are eligible for approval for veterans' education benefits include education or training necessary to qualify for employment, even if commercial businesses rather than educational institutions offer the courses.
- ◆ Education benefits are payable for courses at institutions accredited by regional, professional, or trade accreditation bodies without additional approval by SAAs. SAAs would then retain discretionary authority to review courses at accredited institutions based on information received from veteran students, or according to their own information. SAAs could recommend that approval be withdrawn for specific courses that do not meet the requirements for approval.
- ◆ Courses at nonaccredited institutions continue to require SAA approval.
- ◆ The mission of the SAAs be redirected to include responsibility for providing education benefits outreach to separating veterans, for assisting with the removal of barriers to employment created by individual state credentialing and licensure requirements, and for promoting and developing on-the-job training programs under the Montgomery GI Bill and VA's vocational rehabilitation program.
- ◆ The Secretary of Veterans Affairs determines appropriate SAA performance/outcome standards for carrying out the new mission.

BUDGET IMPLICATIONS - ISSUE I.B

None

Underlying Assumptions

- ◆ Current resources will be redirected.

ISSUE I.C - STREAMLINE MONTHLY CERTIFICATION FOR MGIB PARTICIPANTS

How can VA verify continuing attendance of MGIB participants in a way that is less onerous and costly, and more customer-friendly?

DISCUSSION

Background

VA is authorized, but not required, to verify the continued enrollment of veteran students.³⁹ Under this authority, VA mails monthly enrollment certifications to an average of 280,000 veteran students per month. Veteran students must complete this form and mail it back to VA, which, in turn, processes the certification before issuing the monthly benefit check. This represents a “postpayment” system. VA’s Education Service estimates that about 85 percent of monthly certifications indicate no change in enrollment/course load.⁴⁰ Processing monthly certifications of attendance in the current paper environment costs about \$1.8 million per year.⁴¹ It costs \$.55 to process a single monthly certification, including the cost of paper, printing, envelopes, postage, and the time of one clerical full-time equivalent employee (FTEE). The veteran student pays the postage to return the signed certification to VA.

Vice President Gore’s 1997 *Access America* report promotes electronic service options for all those who want them. The 1998 *Access America for Students* (the follow-up action plan targeting the student population) lists VA electronic monthly enrollment certification as one component of a core suite of services proposed for students.

Analysis

The process of printing, mailing, and processing monthly certifications is labor intensive compared with electronic or telephone certifications. Monthly certifications are a source of dissatisfaction for veterans and schools.⁴² Veterans are unhappy that their monthly educational

³⁹. 38 USC § 3680(g).

⁴⁰. Interview with Eleanor Hunter, Chief of Procedures, VA, August 4, 1998.

⁴¹. Ibid.

⁴². GPRA focus groups, monthly verification of enrollment, 1995, unpaginated.

assistance allowance checks often arrive well after their monthly bills are due because of the time it takes to mail and process their certifications. Veterans also resent the need to repeatedly reassure VA that they are actually attending school, especially because the school has already certified them and continues to monitor their enrollment.

A paperless monthly verification process would reduce VA's administrative costs (currently \$1.8 million per year), by eliminating the costs of printing, mailing, and postage. Each of VA's four MGIB regional processing offices devotes one FTEE (each a GS-4) to processing monthly certifications. VA's Education Service estimates that three of those four FTEE could be saved in an electronic monthly certification process.⁴³

VA's Education Service has proposed an Internet processing alternative and an automated, toll-free telephone certification initiative. The Internet certification would bring the cost of certification processing much closer to the core cost of processing the electronic transactions. The telephone initiative would make similar efficiencies available to all, regardless of Internet access. The Commission believes that VA should immediately utilize modern automated electronic methods to process certifications. Such a step would both improve veteran satisfaction and save money.

In summary, the Commission notes –

- ◆ Eighty-five percent of monthly certifications indicate no change in the student's enrollment/course load.
- ◆ Processing such certifications costs \$1.8 million per year.
- ◆ Monthly certifications are a source of dissatisfaction to veterans for multiple reasons.
- ◆ VA's monthly verification of student enrollment is allowed, but not required, by law.
- ◆ Unlike prior VA education programs, MGIB monthly payments are made at the end of the month for the month gone by, rather than at the beginning of the month for the month to come. This postpayment helps control overpayments by allowing enough time to process enrollment changes before a check is issued.

In light of these factors, the Commission believes VA would benefit from a pilot program of conducting certifications on a periodic, rather than monthly, basis at selected four-year, two-year, and less-than-two year schools. Periodic monthly certification, for example, could include the first and next-to-last month of a school term, semester, or quarter. The purpose of a pilot program would be to determine the effect, if any, on the frequency and amount of MGIB overpayments. Based on the results of the pilot, VA could make appropriate modifications, if any, to its monthly certification policy.

FINDINGS

- ◆ Students and schools are dissatisfied with the current monthly enrollment verification requirement because of the burden placed on students and the delay in monthly benefits payments.

⁴³ Telephone interview with Dennis Douglas, VA Education Service, August 10, 1998.

- ◆ The current postpayment of education benefits, combined with school monitoring of enrollment changes, and periodic rather than monthly enrollment verifications, probably would provide adequate protection against overpayment of education benefits.
- ◆ Manual processing of monthly certifications is paper-intensive, slow, and costly.
- ◆ Electronic or automated toll-free telephone verification of enrollment would be less onerous and more responsive to veteran students and produce dramatic savings in VA’s administrative costs.

RECOMMENDATIONS

- ◆ That VA implement, as soon as practicable, modern electronic methods, such as use of the Internet and a toll-free automated telephone system, for verification of continued enrollment.
- ◆ That the Secretary of Veterans Affairs conducts a pilot program of verification of student enrollment/course load on a periodic, rather than monthly basis, to determine what effect, if any, periodic certifications would have on MGIB overpayments.

BUDGET IMPLICATIONS - ISSUE I.C

1 st -year savings.....	\$0.7 million
5-year cumulative savings.....	\$3.0 million

Underlying Assumptions

- ◆ Annual cost of \$100,000 to implement Internet-based bi-semester certification.
- ◆ No increase in overpayments because of bi-semester certification.
- ◆ VA estimate of cost to process individual certification at \$.55.
- ◆ VA current certification frequency at 9 per year.
- ◆ Periodic certification frequency at 4 per year.

CHAPTER II - EMPLOYMENT AND TRAINING

OVERVIEW

Employment is the dominant concern for most veterans making their transition to civilian life. A veteran without a suitable job is at a high risk of becoming a veteran in a state of perpetual crisis. A veteran with a suitable job is a veteran in a position to create his or her own solutions to most of the problems that come with forging a new life as a civilian.

The Commission does not believe that servicemembers' and veterans' employment services, as they are now constituted, organized, and delivered, will be adequate or effective for helping servicemembers and veterans find jobs in the 21st century.

Current program design and service delivery methods are rooted in the practices of half a century ago when a veteran job seeker would go to a government agency that would then try to find the veteran a job. The mission of supporting servicemembers' and veterans' job searches

A veteran with a suitable job is a veteran in a position to create his or her own solutions to most of the problems that come with forging a new life as a civilian.

is now entrusted to different agencies that each operate their own stovepiped systems and programs with their own jurisdictions, time frames, and constituencies. Delivery of employment services to transitioning servicemembers is diluted by statutory priorities established a quarter of a century ago. In an era of funding programs through block grants to states, veterans have a priority for service in only a few veteran-specific employment and training programs. The Nation has learned that competition and accountability enhance beneficiary-focused responsive service. Grants for veterans' employment programs, however, are awarded on a noncompetitive basis without financial penalty or reward

based on performance or cost effectiveness.

The effect of these factors can be seen in Bureau of Labor Statistics (BLS) data showing that fewer than 2 percent of veterans go to the Employment Service (ES) when looking for a job and in ES data showing that only 12 percent of the veterans who do go to the ES get permanent jobs following their visit. These numbers indicate that the programs are neither adequate nor effective, especially in view of the Nation's commitment to the men and women who defend its freedom.

Current veterans' employment programs were designed in an era when military service was virtually universal and employers were familiar with the desirable characteristics of veterans, even if they were not veterans themselves.

The Commission recognizes that most job-seeking veterans today can get their own jobs, if they know how to go about it and where to find employers. The Commission therefore proposes reforms to ensure that transitioning servicemembers and veterans have the knowledge they need to use modern computerized tools for a job search, as well as the techniques they need to market their skills and knowledge to private sector employers. If

adopted, Commission proposals will ensure that preparation for postservice employment is integrated into a seamless whole that begins while an individual is on active duty and culminates with a civilian employer's offer of a post-service job. Commission proposals will encourage responsive service to servicemembers and veterans by introducing competition and accountability into the selection and funding of employment service providers.

The Commission proposes that transition services designed to help prepare separating and retiring servicemembers obtain employment be given increased priority at the Defense Department level. The Commission found that former servicemembers' expression of goodwill toward the Armed Forces often affected recruiting efforts in a positive way and that a willingness to speak well of their military experience was often a direct result of how successful former members considered themselves following their transition to civilian life. The Commission believes that making transition planning a part of the career life cycle would improve servicemembers' ability to enhance their skills or education prior to deciding to leave the military. As an additional benefit to the Armed Forces, the Commission found that the transition preparation process frequently resulted in servicemembers' deciding to remain on active duty longer.

The Commission also proposes to reengineer the responsibilities of direct service providers to meet the needs of servicemembers and veterans in the next century, rather than perpetuate an obsolete system designed for their parents and grandparents. The Commission proposes to refocus priorities so that services are directed to the veterans most in need of employment assistance. The Commission's proposed programs increase the likelihood that America's employers will seek out and hire the country's finest, the men and women who wear the uniforms of the Armed Forces of the United States.

Divided responsibility for veterans' programs creates confusion on the part of both veterans and employers. Divided jurisdiction diffuses responsibility and defeats accountability. The Commission believes that this division may reduce the employment services' effectiveness for veterans. The Commission proposes that the Congress and Executive Branch jointly establish effectiveness standards for employment programs. If these standards are not met, then Congress should consider the unification of federal responsibilities for veterans' employment with other veterans' programs and, in doing so, create one stop for veterans and employers seeking solutions to employment problems and a single point of accountability.

The Commission believes that federal contractors have both a special responsibility and a unique opportunity to benefit from the skills and experience that veterans offer private sector employers. The Commission proposes reforms that will provide contractors with economic incentives for hiring veterans and allow servicemembers to continue their service to our country in the private sector.

The Commission also believes that neither veterans nor the Federal Government are well served by current disincentives to federal employment by retired regular officers. The government loses the services of capable and knowledgeable workers, and employment opportunities are narrowed for men and women who have served their country faithfully and well. The Commission recommends that these disincentives end.

In summary, the Commission's recommendations are intended to ensure that transitioning servicemembers have timely and seamless access to the tools they will need to successfully take responsibility for their own job search, that veterans will conduct their job search in a responsive employment environment, and that the organizations entrusted with assisting veterans are providing services tailored to the needs of the 21st century and have incentives to ensure the success of their clients.

ISSUE II.A - IMPROVE SERVICEMEMBERS' TRANSITION PROGRAMS AND SERVICES

Are the current transition programs authorized in title 10 of the United States Code adequate and effective in assisting members of the Armed Forces to adjust to civilian life, and how can they be improved?

DISCUSSION

Background

A transition assistance program (TAP) is the first step to providing servicemembers with the means of controlling their transition to civilian life. TAP informs members of the various programs and benefits available to assist their transition and prepares them to search for postservice employment. TAP is offered at a critical juncture of the servicemember's life, at a time when he or she is getting ready to move from the DoD jurisdiction to the jurisdiction of other departments and agencies, such as the VA, the Department of Labor (DOL), and the Small Business Administration (SBA), that provide benefits and services to veterans after they leave active duty. Thus, TAP programs play a critical role in presenting separating servicemembers with a single entry point for their transition to civilian life. It is vitally important that TAP programs continuously evolve so as to remain capable of bridging effectively ever-changing military and civilian environments.

All separating or retiring servicemembers are entitled to basic transition services. Transition services include preseparation counseling, employment assistance, skills and training verification and encouragement to enter public and community service jobs.⁴⁴

All involuntarily separated personnel are eligible for up to 30 days of excess leave or 20 days (30 days if overseas) permissive temporary duty (TDY) to facilitate relocation activities. Additional temporary benefits for servicemembers who are involuntarily separated during the period between October 1, 1990, and September 30, 2001, include transitional healthcare, conversion health policies, continued use of commissaries, exchanges, family housing, and priority affiliation with Guard and Reserve units.⁴⁵

⁴⁴. 10 USC, § 1142-1144, 1148.

⁴⁵. Public Law 105-262.

TAP has two components: one conducted by DOL and the other by DoD. DOL's portion usually consists of a 3-day group workshop. DoD's consist of preseparation counseling and transition services provided before and after the DOL workshop.

These transition assistance programs became critical when the end of the Cold War prompted a reduction in defense spending and the size of the active-duty force. Large numbers of servicemembers were induced to leave prematurely, albeit voluntarily, by temporary, targeted financial incentive programs such as the Voluntary Separation Incentive/Special Separation Benefit and Temporary Early Retirement Authority. Many servicemembers who had planned to remain on active duty until retirement were suddenly thrust into the civilian job market. Regardless of the impetus for transition programs, the Commission firmly believes every separating or retiring servicemember is entitled to transition services — it is the right and smart thing to do.

One of the characteristics of military life is that servicemembers often do not remain current on developments in and skills for job hunting in the civilian economic sector. The Commission notes that active-duty assignments are often programmed, chosen, or otherwise dictated by the Service; that newly separated servicemembers experience higher unemployment rates; and that, as studies show, those who have adequate guidance at or before separation do demonstrably better in the civilian economy. The Commission, therefore, concludes that job-search preparation may well have a positive influence on gaining postmilitary employment.

Between FY 1991 and FY 1997, about 2.1 million servicemembers separated or retired, and DoD expects to separate approximately 238,000 members annually for the foreseeable future. BLS employment survey data show that male veterans aged 20 to 24 and 35 to 39 (the ages at which veterans are most likely to separate or retire) have higher unemployment rates than non-veteran males in the same age groups.

Analysis

General

Valid criticism was leveled at the TAP program initially. Early evaluations charged that the program lacked top-level guidance, clear objectives, and quantifiable measures of success and that it did not provide adequate preparation for servicemembers or effective overseas support.⁴⁶

As TAP improved administratively, evaluations became more positive. A 1995 study for the Army by the U.S. Army Research Institute for Behavioral and Social Sciences (ARI) with the Human Resources Research Organization (HumRRO) found —

Transition and job search assistance and satisfaction with such services were significant factors in accounting for former servicemembers' earnings, relative financial condition, and reliance on unemployment compensation. Receipt of and satisfaction with such services was even more strongly and positively related to ratings of preparedness for the civilian job market and

⁴⁶ Inspector General, Department of Defense (93-INS-11), *Final Report of the Inspections of Defense Transition Assistance Program*, August 20, 1993, pp. 42-44, 50.

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ratings of various aspects of one's civilian job. All in all, on average, the more job search assistance services received and the more satisfied with these services, the more one felt prepared for and achieved success in the civilian job market.⁴⁷

At Commission hearings, roundtables, and military installation site visits, witnesses supported the transition program concept. Many commanders credited it with generating intangible recruiting benefits. Servicemembers repeatedly spoke of the necessity, value, and quality of the transition assistance program. Overseas participants emphasized the importance of, and their appreciation for, TAP-sponsored job fairs and specifically requested earlier access to, and more time to participate in, transition programs, increased VA representation, and improved computer-based information and services to aid them in their return to the United States and transition to civilian life.

It was suggested that TAP had a positive effect on retention. When servicemembers are considering their options to separate or remain on active duty, but do not consider themselves fully prepared to reenter the civilian workforce, TAP offers a realistic view of civilian job market expectations/prospects. Servicemembers facing this dilemma sometimes postpone their separation to gain additional income, skills, or education.

Collectively, the heads of the Military Services Recruiting Commands supported the continued need for TAP, agreeing with the notion that servicemembers who leave the military with a positive feeling about their military experience are likely to serve as informal recruiters by passing along their recommendations to potential recruits.

The Military Services Personnel Chiefs, in their testimony before the Commission in April 1998, voiced unanimous support for the transition program and several urged increased federal funding to expand and improve the programs. Studies conducted by the Logistics Management Institute (LMI) and ARI, as well as the impact analysis report on DOL-TAP, all emphasized the importance of individual counseling on a successful transition and employment outcome.^{48,49,50}

The Military Services Personnel Chiefs, transition program planners, policy makers, managers, and service providers all indicated that the current \$39 million total funding level makes it difficult to sustain high quality programs and is inadequate to support necessary improvements. The total DoD budget for TAP in FY 1995 was \$68 million. In FY 2000, it is projected to be \$39 million,⁵¹ representing a 42-percent reduction. Transition assistance centers report large numbers of servicemembers participating in only the required preseparation counseling and DOL-TAP workshop. Transition services are readily available at

⁴⁷ U.S. Army Research Institute for the Behavioral and Social Sciences, *Outcome Evaluation of the Army Career Alumni Program's Job Assistance Centers* June 16, 1995, p. 2, Executive Summary.

⁴⁸ Logistics Management Institute Report, *Effective Delivery of Transition Assistance to Air Force Members Leaving the Service*, Mar 1997, pp. iii-vi.

⁴⁹ U.S. Army Research Institute for the Behavioral and Social Sciences, *Outcome Evaluation of the Army Career Alumni Program's Job Assistance Centers*, June 16, 1995, pp. 2 & 27, Executive Summary.

⁵⁰ U.S. Department of Labor, Office of the Assistant Secretary of Veterans' Employment and Training, *Transition Assistance Program: Phase III Impact Analysis*, May 15, 1995, pp. v-viii.

⁵¹ Office of the Secretary of Defense/(Force Management Policy), Office of Family Policy, Discussion with Ms. Smith, May 19, 1998.

installations with small populations of separatees or retirees. At large installations, because of funding, staffing, and operational constraints, many of the optional transition services are, in effect, unavailable.

The one-on-one and small-group counseling sessions that are part of DoD TAP's employment assistance component are the most desired and most valuable according to separating servicemembers. Participants view the following as the most useful transition program components: intensive workshops geared toward the individual's job search, resume writing, interviewing techniques, career planning, and information on obtaining government employment.⁵² These components offer a blend of group and individual services. In spite of underfunding, TAP has been and continues to be an essential tool in assisting separating and retiring members of the Armed Forces.

In most cases, TAP staff have attempted to accommodate the tight schedules associated with rapid operating tempos, deployment, unexpected or sudden discharges, and poor planning. However, multiple studies, program experience, and anecdotal information all point to a strong positive relationship between the level of preparation by the servicemember and the likelihood of a successful transition. The ARI study also found that the level of satisfaction with the program and the number of transition services a member used had a strong and positive affect on job preparedness and postservice income levels. Among former E6 and below servicemembers without a Bachelor's degree, the estimated average earnings difference between marginal participants and those who participated fully was \$7,300 annually. Marginal participants were those who attended only the DOL-TAP workshop and received only 2 of 12 available TAP services, as opposed to those who participated in other services as well as TAP and accessed all available TAP services.⁵³

Unemployment Compensation Connection

The 1995 DOL study found that job search preparation resulted in a lower rate and shorter duration of unemployment among veterans, reduced stress and anxiety, and fostered happier and better-adjusted servicemembers and families. Compared with other veterans, DOL-TAP participants collected Unemployment Insurance for Ex-Service Members (UCX) benefits for shorter periods because they found jobs more quickly.⁵⁴ During the 10-year period from 1987 to 1997, total unemployment compensation to former servicemembers surpassed \$2.9 billion. If, in fact, a cause-and-effect relationship exists between TAP participation and postmilitary service employment, it is clearly in the government's best interest to fully fund and vigorously promote DoD transition assistance programs.

⁵² U.S. Army Research Institute for the Behavioral and Social Sciences *Outcome Evaluation of the Army Career Alumni Program's Job Assistance Centers*, June 16, 1995, pp. 54-55.

⁵³ U.S. Army Research Institute for the Behavioral and Social Sciences, *Outcome Evaluation of the Army Career Alumni Program's Job Assistance Centers*, June 16, 1995, Executive Summary.

⁵⁴ U.S. Department of Labor, Office of the Assistant Secretary of Veterans' Employment and Training, *Transition Assistance Program: Phase III Impact Analysis*: May 15, 1995, p. vi.

Funding Level

Current DoD funding for transition services is based primarily on the total number of transition centers instead of the total number of separating servicemembers and the associated workload. The Commission recommends that the annual DoD transition services funding be

At the current DoD funding level of \$39 million, approximately \$150 per separating servicemember, transition centers are hard pressed to comply with the minimal provisions of the law.

based on DoD's providing 8 hours of individualized transition assistance services per member separating or retiring from active duty. The Commission believes 8 hours to be the minimum amount of personalized services a member needs and deserves. This is in addition to group preseparation counseling and workshops.

By way of comparative analysis, the Commission noted that according to a benchmarking study conducted by KPMG Peat Marwick, AT&T spent approximately \$2,100 to provide employment assistance for similar, although more intensive, services to all affected employees, clerical through professional, during its downsizing. This amount was 40 percent below the industry average of \$3,500 for outplacement services.⁵⁵ As an additional comparison, the Commission noted that the Department of Agriculture offers a 3-day career transition course for federal employees at a cost of \$395 per participant.

At the current DoD funding level of \$39 million, approximately \$150 per separating servicemember, transition centers are hard pressed to comply with the minimal provisions of the law. Increased resources are necessary to make comprehensive, individualized services available to all eligible servicemembers in a timely manner.

The Commission's recommended DoD funding level, pegged to the CPI, would permit transition centers to improve services to meet the transition needs of military members in the 21st century. With the recommended funding increase, transition centers could-

- ◆ Staff according to workload.
- ◆ Serve clients sooner than they can now.
- ◆ Serve remote clients through distance counseling, a process that enables transitioning servicemembers to communicate one-on-one with transition counselors.
- ◆ Conduct individual counseling sessions on such subjects as self-assessment, individual transition planning, resume writing, interview preparation, and salary negotiations.
- ◆ Reduce the size of group sessions.
- ◆ Expand and upgrade automated systems, including reengineering of the Verification of Military Education and Training (VMET) document.
- ◆ Provide information technology infrastructure, additional automated equipment, access to the Internet, and up-to-date commercial software.

⁵⁵. KPMG Peat Marwick LLP, *Benchmarking Demonstration Study Report, Army Career and Alumni Program*, May 16, 1996, p. 42.

- ◆ It is particularly important for separating servicemembers to be able to access up-to-date computer technology and the Internet and to be trained in how to use this technology. Also, DoD could defray training costs of staff members, fund its share of a transition program usage- and-outcome tracking system, and pay for other partnership initiatives with DOL and VA.

Funding TAP programs based upon a standard number of service hours devoted to each separatee would lead to uniform availability of group and individual transition services, as well as facilitate the comparison of quality and effectiveness among the Services and individual transition centers. Additionally, it would allow the Services to continue structuring their programs to meet unique needs of their servicemembers.

Timing of Transition Assistance

Although current legislation requires the Services to provide transition assistance no later than 90 days before an individual's separation or retirement, the law does not specify the earliest point at which this service should begin. TAP statistics reveal that the majority of servicemembers are within this 3-month window when they first visit a transition office.

During Commission site visits, servicemembers voiced repeatedly their desire to begin the transition process earlier than 90 days before their separation. Personnel indicated to Commissioners that 1 year before separation and 2 years prior to retirement were sufficient to prepare properly for their transition to civilian life. The Commission agrees that allowing servicemembers up to 1 year before separation and two years prior to retirement to initiate the transition process gives servicemembers and adequate time to prepare. Additionally, it provides commanders flexibility since many servicemembers are deployed during the last 6 months of their active duty. With the additional time, servicemembers could learn the fundamentals of transition and the job search process before deployment and relieve the pressure to compress transition and outprocessing into the last few weeks prior to separation or retirement.

Personnel with Less than 180 Days of Service

The law requires the Services to provide preseparation counseling for all active and Reserve Component servicemembers, regardless of the duration of their service, even following service by members are separated during basic training or other indoctrination programs or following each brief period of active duty for training or recall. Preseparation counseling covers a wide range of benefits and programs for which, with few exceptions, personnel with less than 180 consecutive days of active service are ineligible. Because their military service is relatively short, they are not disadvantaged by having to readjust to civilian life.

If the Services were permitted to provide preseparation counseling to members with less than 180 consecutive days of active service on a by request basis, a significant staffing burden at the transition sites would be alleviated and resources could be shifted to installations with greater transition needs. Additionally, separating members who do not desire the information could simply decline the service rather than be forced to sit through a briefing that is of little value to them.

Involuntary Separates

The Commission heard from multiple sources that the broad definition of involuntary separation in chapter 58 of title 10, United States Code, grants the same transition benefits to members involuntarily discharged for reasons related to cause or conduct as it does to members involuntarily separated due to downsizing. For example, a member involuntarily separated for failure to complete drug or alcohol rehabilitation programs or meet physical fitness standards is eligible for the same transition benefits package as a member involuntarily separated because of occupational skill obsolescence or the inability to promote.

What concerns the Commission more is the fact that cause- or conduct-related involuntary separates receive more benefits at separation than honorably discharged voluntary separates. All involuntarily separated personnel, including those separated for cause or conduct, are entitled to excess leave or permissive TDY and 2-year commissary privileges. Voluntary separates are not. Voluntary separates are ineligible for many of the special temporary drawdown-related benefits discussed earlier.⁵⁶ Voluntary separates are ineligible for extended housing, commissary, and exchange privileges, MGIB enrollment/VEAP conversion or transitional healthcare. Voluntary separates receive up to six months household goods storage while involuntary separates receive up to one year. Servicemembers who are involuntarily separated are eligible for home of selection moves. Voluntary separates, however, may only move to their home of record at government expense. The Commission believes that such additional transition benefits should be limited to those who are involuntarily separated due to force restructuring. Witnesses representing all segments of the military structure labeled the present situation unfair and clearly unjust. These witnesses insisted firmly that the definitional ambiguity should be eliminated as it creates an inequity between groups of separates and adversely affects morale.⁵⁷ Without exception, this issue was reported at each installation that the Commission visited.

VA Assistance Overseas

The law does not require VA to maintain veterans' assistance offices on military installations or outside of the United States. While VA representatives use office space on some military installations in the United States, such arrangements are not usually permanent. Through a funding agreement with DoD, the VA currently assigns representatives overseas on a rotational basis in a number of locations with large military populations. Servicemembers stationed overseas who spoke with Commission members viewed the absence of a permanent VA presence as a significant deficiency in their support and assistance network. They noted that this deficiency made the difficult challenge of transitioning back to civilian life while overseas even more difficult. To alleviate this problem, the Commission recommends that section 7723 and section 7724 of title 38, United States Code, be amended to require the Secretary of Veterans Affairs to establish and maintain a permanent VA presence overseas and to add military installations to the list of examples of places at which the Secretary may station VA counseling and outreach personnel.

⁵⁶ Preseparation Guide, September 1997, DA Pam. 635-4, NAVMC 2916, AFJMAN 36-2128, NAVPERS 15616, pp. 60-61.

⁵⁷ Commission Hearing on Military Personnel Transition, April 7, 1998.

Program Usage and Outcomes

Early criticism of the TAP program cited the Services for not establishing adequate program performance metrics. The Army's management system tracks usage of all facets of its program while a soldier is on active duty, but does not track outcome information once that soldier becomes a civilian. The Air Force LMI study stated, "... the absence of metrics limits the ability to measure the effectiveness, cost, consistency, and quality of the services being delivered. Additionally, there is no standard mechanism or criteria in use to determine the usefulness or quality of transition services."⁵⁸ DoD, VA, and DOL each maintain a separate piece of this puzzle in their data collection systems. The three departments should be mandated to coordinate information requirements and collect the data necessary to track long-term usage and outcomes. Knowing whether and when a servicemember or veteran finds employment and what effect, if any, TAP participation may have had, is a critical element in determining the true success or value of the program.

VMET Document

Separating or retiring servicemembers are supposed to receive a document that explains job skills and experience acquired while on active duty in civilian terms and correlates this experience to civilian occupations, where applicable. The descriptions contained in the individualized document can be used to create resumes, complete job applications, or support the awarding of training or academic credit. To fulfill its requirement to provide this information, DoD creates the VMET document about 180 days before the separation of each member.

The Commission believes that the VMET document is flawed and relatively expensive to produce and deliver. It often does not arrive in sufficient time to be useful to the member, the data are often unclear or incomplete, and at times, it is inadvertently sent to servicemembers who have decided to reenlist. In the case of officers, data are transcribed in a way that yields little usable information. Additionally, the VMET document has been poorly marketed. Few servicemembers are aware of its potential value and few employers are aware of its existence.

Automated Platform

The DOL's America's Career Center Kit comprises of four integrated programs that form the foundation of an emerging national electronic labor marketplace. It is a platform upon which enhanced, customized electronic services for servicemembers and veterans can be readily built or integrated. For a description of each of the integrated programs, see the electronic employment assistance in this chapter.

DoD and VA should capitalize on the groundwork already laid by DOL and use the America's Career Center Kit electronic platform, rather than continue to fund and use their own outdated, in-house job search systems.

Transition services and employment assistance should be available and accessible to all separating servicemembers. In FY 1998, there were 234 transition offices worldwide, 170 in the United States and 64 overseas; however, the nature of military service is such that

⁵⁸ Logistics Management Institute Report, *Effective Delivery of Transition Assistance to Air Force Members Leaving the Service*, March 1997, p. v.

transitioning personnel will not always be in one of those locations when the need for transition information arises. For personnel located in remote or isolated areas and those aboard ships at sea, access becomes a critical need. Internet access and access to an automated, interactive transition assistance platform similar to the "TAP-in-the-Box" system initially developed by the Army and being field tested by all the Services would go a long way toward meeting the needs of the population at risk of neglect.

FINDINGS

- ◆ Obtaining timely and suitable employment is the fundamental marker of a successful transition.
- ◆ The transition assistance programs operated by the military Services make a critical contribution to servicemembers' efforts to seek and find suitable employment after they leave active duty. The positive impact of these programs justifies increased consideration among DoD priorities.
- ◆ Individualized and comprehensive services for separating and retiring servicemembers are fundamental keys to providing high-quality transition assistance. High-quality TAP programs pay dividends to society and to servicemembers by hastening members' return to productive civilian economic life. These services are not being offered widely enough because of resource constraints.
- ◆ The unemployment rate for newly separated veterans exceeds the unemployment rate for comparable nonveterans. TAP programs do not have the resources necessary to offer comprehensive and individualized services to all separating servicemembers. Individualized services are necessary to increase the likelihood of members promptly obtaining suitable employment after their separation.
- ◆ TAP program success depends on servicemember access to all the services offered. That access is hampered when transition is not included as part of career life cycle planning from the beginning. Often, servicemembers' access to TAP is limited until 90 days before separation.
- ◆ TAP can benefit both Armed Forces recruiting, by creating satisfied participants who serve as informal goodwill ambassadors for military service and retention efforts, by providing a clear view of military service benefits and civilian job market expectations to servicemembers who are undecided about reenlisting.
- ◆ Individuals without disabilities separating after serving less than 180 days on active duty have little need for transition assistance and do not require readjustment to civilian life. TAP programs are resource limited. Providing them to individuals who have been on active duty for only a very short time comes at the expense of servicemembers who are completing their obligated period of service.
- ◆ Providing the full range of involuntary separation benefits to all involuntary separatees, including those who are being separated for cause or due to their own misconduct, is inequitable to individuals whose service has been satisfactory. The result is that individuals who perform well and separate at the completion of their enlistment receive no additional benefits, while servicemembers who are asked to

leave for performance or behavior reasons receive additional transition benefits. In addition to creating morale problems, this requirement diverts scarce resources from higher priority programs.

- ◆ VA's current presence on military facilities and level of participation in TAP programs is inadequate to ensure that separating servicemembers are aware of their benefits, especially in the case of servicemembers being separated overseas.
- ◆ DOL electronic exchange programs have successfully automated the process of matching job seekers with employers by establishing easily accessible databases of information available jobs and job-seeking Americans. DoD does not make adequate use of electronic transition and job-search services, especially in the case of servicemembers stationed at remote locations or aboard ship.
- ◆ Transitioning servicemembers have a critical need for a clear, comprehensive, and readily accessible translation of their military skills and experience into a form and format familiar to, and understandable by, civilian employers. The VMET document now used is inadequate for this task.
- ◆ Evaluation and management of the transition assistance programs are hampered by the lack of coordinated interdepartmental follow-up and outcomes measurement.

RECOMMENDATIONS

That Congress enact legislation to-

- ◆ Increase DoD TAP funding to provide 8 hours of individualized transition assistance services for each separating or retiring servicemember, in addition to preseparation counseling and group workshops.
- ◆ Amend section 1142(a) of title 10, United States Code, to authorize an extended time frame for providing individual transition services. Require the services to be offered as soon as 1 year before the anticipated date of separation or 2 years before the anticipated date of retirement, but not less than 90 days before the anticipated date of separation or retirement. If notification of separation or retirement occurs less than 90 days before the end of active duty, transition services should begin as soon as possible following notification.
- ◆ Make preseparation counseling optional for members being separated before completion of their first 180 days of active duty, unless separation is due to a service-connected disability.
- ◆ Amend section 1141 of title 10 to eliminate inconsistencies in the law that have led to benefits inequities, clearly distinguish between personnel involuntarily separated because of force restructuring and those involuntarily separated for other reasons, and grant special benefits only to those separated for force-management reasons.
- ◆ Amend section 7722 of title 38, United States Code, to mandate that the Secretary of Veterans Affairs provide outreach services to members of the Armed Forces as part of VA's transition program.
- ◆ Amend section 7723 of title 38 to require that the Secretary of Veterans Affairs establish and maintain transition assistance offices on U.S. military installations outside of the United States.

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- ◆ Amend section 7724 of title 38 to add military installations as an example of places where VA may station counseling and outreach personnel.

That DoD, DOL, and VA make the following programmatic or policy changes:

- ◆ DoD: incorporate transition planning into the career life cycle of servicemembers.
- ◆ VA: make increased use of automation and technology to improve the availability and quality of veterans' benefits information throughout the world.
- ◆ DoD: improve form and content of DD Form 2586, the VMET document, to increase usefulness, make it more useful, available at the member's request, and distribute it electronically.
- ◆ DoD: provide an Internet-accessible, automated, interactive transition assistance platform aboard ships, as well as in remote and isolated areas.
- ◆ DoD and VA: utilize the DOL automated America's Career Center Kit platform to provide employment-related information.
- ◆ DoD, DOL, and VA: track program usage and outcomes in a coordinated fashion.

BUDGET IMPLICATIONS - ISSUE II.A

1st-year costs..... \$ 51 million

5-year cumulative costs..... \$270 million

Underlying Assumptions

- ◆ Every separating or retiring servicemember receives 8 hours of individual transition services.
- ◆ Transition program costs inflated by 3 percent in outyears.
- ◆ VA annual cost of \$800,000 for stationing four staff overseas.
- ◆ DoD, VA, and DOL to share annual costs of \$750,000 to coordinate program assessment.
- ◆ Costs of electronic labor exchange programs reflected in section on Issue II.d.

ISSUE II.B - REENGINEER EMPLOYMENT ASSISTANCE SERVICES FOR VETERANS

What employment services do separating servicemembers and recently separated veterans of America's all-volunteer force need to complete a successful transition to civilian life, and what is the most cost-effective way to provide these services?

DISCUSSION

Background

One of the most basic requirements for successful civilian life is a suitable job. A new job marks the beginning of a new career, provides income for the necessities of life, including housing, and is usually the source of healthcare coverage.

Because of the importance of a suitable job to veterans and separating servicemembers, one of the most important requirements for a successful transition program is the need to empower veterans and separating servicemembers for their job search. Veterans and servicemembers need seamless access to an appropriate arsenal of employment benefits and services. These services, and the organizations providing them, must remain up-to-date to ensure that the services provided will be useful in the employment world that veterans and servicemembers are entering, not the world as it existed at some time in the past.

An analysis of the adequacy and effectiveness of employment programs for servicemembers and veterans must examine the priority assigned to transitioning veterans, the programs for which those priorities are applied, and the nature of the programs themselves as well as how they are delivered and, given the importance of service to veterans with service-connected disabilities, how VA's vocational rehabilitation program interacts with the delivery of employment services.

Priority of Service

Title 38 of the United States Code provides priority to disabled veterans and veterans of the Vietnam era. DOL regulations require service delivery points to observe the following order of priority: (1) special disabled veterans (those with disability ratings of 30 percent or more), (2) veterans of the Vietnam era, (3) disabled veterans other than special disabled veterans, (4) all other veterans and eligible persons, and (5) nonveterans.⁵⁹

These priorities last throughout life for qualified veterans, to the extent that the public labor exchange is able to comply with the requirement. In the traditional public employment service model, veterans' employment specialists were hands-on intermediaries between employers and veterans. As a central point of control, they could put veterans first in line and restrict access to jobs so veterans could apply first.

⁵⁹. 38 U.S.C. 4102, 20 CFR Chapter IX Subpart C 1001.120 (b)

DOL Veterans' Employment and Training Service (VETS) Programs

Since the end of World War I, the States Employment Service has helped veterans find civilian employment. DOL/VETS reports that 2 million veterans seek employment assistance annually from state ES offices.⁶⁰ (There appears to be a discrepancy in DOL data regarding veterans' usage of the State Employment Service. BLS, USDL 98-258, June 25, 1998, Table 6, based on a supplemental to the September 1997 current Population Survey, reported that 1.1 percent of veterans [approximately 260,000] have used "State Job Service Offices.") Two-thirds of these veterans are served by staff working in one of the two veterans' employment programs funded through noncompetitive state grants by DOL/VETS. The first program, the local veterans' employment representative (LVER) program, was established in the original GI Bill of 1944. The second program, the disabled veterans' outreach program (DVOP), was created by executive order in 1977 and codified in 1980.⁶¹ In FY 1998, appropriations of \$79 million funded 1,339 LVER positions and \$80 million funded 1,494 DVOP positions.⁶²

Title 38 sets forth very prescriptive duties for both DVOP and LVER staff. DVOP staff have 10 process-based principal duties and LVER staff have 12 process-based principal duties. The law additionally addresses performance standards, which are essentially process, as opposed to outcome, measures.

Although the country's economic, social, and military environments have changed dramatically, the legal framework, policy, and operational direction governing the provision of public employment services to veterans remain rooted in an earlier age. The public employment and training delivery system at the state level today is vastly different from the system that was in operation when the LVER and DVOP statutes were originally enacted. The One-Stop Career Centers developed through innovative use of automation and creative service strategies increase freedom for job seekers to conduct job searches in the manner they believe most beneficial to their personal needs. This proliferation of new strategies, including self-service options for both job seekers and employers, has dramatically changed the environment in which veteran job seekers are served.

VA's VR&C Program

The VA annually enrolls approximately 55,000 disabled veterans in its VR&C program. This program is intended to provide service-connected disabled veterans with counseling and training to overcome their barriers to employment and to place them in a suitable job. The VR&C program is authorized 709 FTEE, including 242 counseling psychologists, 185 vocational rehabilitation specialists, and 10 employment specialists. Program funding levels for FY 1997 included \$424.6 million for readjustment benefits and \$45.8 million for agency operations.

⁶⁰. DOL, Employment and Training Administration 9002 Report, Program Year (PY) 1996.

⁶¹. General Accounting Office(GAO) GAO/HHS-98-7, October 7, 1997, p. 5.

⁶². DOL, VETS FY 1999 Congressional Budget Request, pp. 17-18.

Analysis

Today's veterans are not well served by current programs. Veterans' employment services must be totally reengineered to meet the new reality of a highly automated, integrated, and customer-focused environment. Components of federal programs must be better integrated or consolidated to better serve transitioning veterans, as well as those dealing with disabilities or facing employment barriers.

Priority of Service

The advent of the Internet, reduced numbers of employment specialist staff, and the changing service delivery environment have generally reduced the effectiveness of traditional practices for the delivery of employment services. The need for priority of service is not disputed. "The protective nature of the military environment requires a transition period for individuals to acclimate to the civilian world of work after completion of their military obligation. Some priority of service must be afforded. For service-connected disabled veterans, the entitlement to priority of service should be for life."⁶³ For veterans facing employment barriers, priority of service should be available for as long as the barriers impede the veteran's ability to obtain employment.

If priority of service is intended to enhance a veteran's probability of securing civilian employment as he/she transitions from the military, then the emphasis must be placed on priority for delivering services at the time of transition. Public Law 105-220, the Workforce Investment Act of 1998, defines "recently separated" as being within 48 months of separation. The Commission agrees that this is the right length of time for this priority.

Public Law 105-220 also consolidated federal job training and employment programs into a small number of block grants to the states. Because categorical veterans' employment programs comprise only a small portion of federal job-training funding, a priority for veterans must apply to all employment and training programs to ensure that the transitional job-securing needs of all transitioning veterans are met. If priority is focused on only one program, but is a lifetime advantage, it may serve some veterans well and others not at all.

Veterans' employment services must be totally reengineered to meet the new reality of a highly automated, integrated, and customer-focused environment. The ES is neither meeting the expectations of its customers nor focusing its efforts on those veterans who most need its services.

⁶³ Consensus Letter from Six State Employment Security Agency (SESA) Administrators, May 4, 1998, p. 3.

DOL/VETS Programs

DVOP/LVER Workload:

In program year (PY - July to June) 1996, only 12 percent of the 2 million veterans seeking services through the states' ES offices subsequently obtained permanent employment.⁶⁴ DVOP and LVER staff placed 308,000 of these veterans at an average cost of \$510 per placement.⁶⁵

Of the veterans who used state ES offices-

- ◆ 95 percent were former enlisted personnel.
- ◆ Fewer than 25 percent were separated from the military for less than 5 years.
- ◆ 54 percent had more than a high school education, although only 15 percent had a degree. 46 percent were over age 45.⁶⁶

State Employment Security Agency (SESA) Administrators stated, "The majority of veterans have marketable skills and do not require staff-intensive assistance. Intensive one-on-one services should be devoted primarily to veterans with significant employment barriers."⁶⁷ Dividing veteran applicants into three categories—those who are job ready, those who are job ready but need minimal assistance, and those who face employment barriers and need extensive services—the Government Accounting Office (GAO) reported in 1997 that DVOP staff spent 62 percent of their time on the 73 percent of their clients who were job ready. Similarly, LVER staff reported spending 67 percent of their time on the 80 percent of their clients who were job ready.⁶⁸

Only 0.7 percent (14,311 of 2 million) of all veterans who registered for services with the ES received case management services. Only 4.1 percent of disabled veteran clients and 6.1 percent of special disabled veteran clients received case management services.⁶⁹ Since 1995, nearly 2,400 DVOP and LVER staff have received special training on how to assist veterans facing employment barriers. In spite of this, DVOP and LVER staff continue to spend the majority of their time with job-ready veterans. This minimizes the time available to provide case management services to veterans facing barriers to employment. Many of the veterans facing employment barriers have no source of job assistance other than the public employment service.

The GAO study reported that DVOP and LVER staff spend most of their time performing three duties – intake and assessment, job search and referral, and outreach – rather than case management or intensive individualized services to job-seeking veterans.⁷⁰ A survey of veterans who used state-run employment services provides a measure of veteran satisfaction with ES services. The survey found that 68 percent reported they did not receive career counseling. Of this group, 60 percent said they would like to have received such counseling.⁷¹

⁶⁴. DOL Annual Report to Congress 1997, p. 28.

⁶⁵. VETS, p. 18.

⁶⁶. VETS Customer Satisfaction Surveys: Employer and Veteran Users of the Job Service, April 28, 1995, p. 57.

⁶⁷. SESA, p. 3.

⁶⁸. GAO, pp. 76-77.

⁶⁹. DOL 9002.

⁷⁰. GAO, p. 29.

⁷¹. VETS, p. 73.

Seventy percent of the veterans did not receive information on career preparation, and of those veterans, 70 percent would like to have received such information.⁷² Eighty-two percent of the veterans did not receive training in job search techniques, and of those veterans, 63 percent said they would like to have received such training.⁷³ Thirty-six percent of the veteran job applicants felt that some of the referrals were not appropriate, and 80 percent of these individuals cited poor match with their skills, interest, or work experience.⁷⁴ These data indicate that the ES is neither meeting the expectations of its customers nor focusing its efforts on those veterans who most need its services.

Grant Administration:

Title 38 assures the noncompetitive award of DVOP and LVER program staffing grants to state employment service agencies. DOL/VETS uses the formulas specified in the law, together with cost information from each state, to determine the amount of funding for each state. Program performance, program outcomes, and administrative and support costs are not considered in these funding decisions.

Administrative and support costs vary widely among states, ranging from 18 to 35 percent of their grants. These expenses include costs such as travel, supplies, and a portion of central office personnel, communications, rent, and utilities.⁷⁵ In 21 states, administrative costs exceeded 25 percent of the LVER grants, with the average being 24.4 percent.⁷⁶ For DVOP grants, administrative costs averaged 25.3 percent and exceeded the average in 24 states.⁷⁷ These variations in overhead costs are evidence that dramatic improvements are possible in some states. However, the current practice of awarding grants on a noncompetitive basis gives state employment services no incentive to adopt the best practices of their more efficient peers and gives DOL no leverage to force a change in state management practices. Because the appropriation for funding the program is limited, unnecessary overhead costs have the effect of reducing services to veterans.

Program Performance Measures:

As required by federal law, DOL has established performance standards for evaluating states in five service categories: 1) veterans placed in or obtaining employment, 2) Vietnam-era veterans and special disabled veterans placed in jobs on the Federal Contractor Job Listing, 3) veterans counseled, 4) veterans placed in training, and 5) veterans who receive some reportable service. There is a wide variation in the states' performance. The 1997 GAO report showed that 18 states placed fewer than one-in-five of the veterans who came to the ES. At the other end of the spectrum, four states placed more than 40 percent of their veteran applicants.⁷⁸ According to the DOL 1997 Annual Report, nine states met DOL performance standards while placing fewer than 10 percent of veterans registrants.⁷⁹

⁷² VETS, p. 75

⁷³ VETS, p. 66

⁷⁴ VETS, p. 94

⁷⁵ GAO, p. 10.

⁷⁶ GAO, pp. 53-54.

⁷⁷ GAO, pp. 48-49.

⁷⁸ GAO, p. 57.

⁷⁹ Op. Cit. DOL, 9002

The current system for measuring priority service to veterans sets the base standard to the number of nonveteran applicants served. This is a relative measure. Consequently, a state that has a poor level of service to nonveterans is held to a lower standard for service to veterans than a state with better overall performance. For example, one state with a low placement rate for nonveteran applicants (5.62 percent) for PY 1995, exceeded the performance standard set by DOL by placing 6.47 percent of veteran applicants. On the other hand, a state with a higher placement rate for nonveterans did not meet its performance standard even though it placed nearly 22 percent of its veteran applicants.⁸⁰ Performance, relative or absolute, had no effect on the grant to either the high performance or low performance state.

In testimony before the House Veterans' Affairs Subcommittee on Benefits in May 1997, GAO "criticized VETS' current performance standards because they focus more on process than on results and noted that performance is evaluated only in relative, not absolute, terms."⁸¹ SESA Administrators agreed, arguing that "Veterans reporting and measurement systems need to be revised and focus on positive outcomes rather than service counts. Employment to increased earning capacity and reduced support costs (unemployment insurance, welfare, etc.) should be the critical measures of success. Although entered employment is a measure in the current system, reporting (9002)⁸² requirements and performance measures place far too much emphasis on counting discrete services and then comparing those counts across veteran and non-veteran customers. Not only is such an approach cumbersome and costly, it does little to measure effectiveness of service...."⁸³

VA's VR&C Program

Prior to Public Law 96-466, enacted in 1980, the entire focus of the VR&C program was completion of training. Employment was not an area for which staff were held accountable. Consequently, the program developed a very strong and institutionalized system for sending veterans to colleges and universities. GAO reported in 1984, 1992, and 1996, that the VA had not properly focused the VR&C program on employment.⁸⁴ Other sources, including the VA's Inspector General's Office in 1988⁸⁵ and in 1996 the VR&C Design Team composed of 17 VA employees, supported this finding. Participants in two Commission Roundtables on VR&C stated that provision of employment services is the weakest part of the program.⁸⁶

The VR&C program has maintained a bifurcated service delivery system. A counseling psychologist administers a comprehensive evaluation, determines eligibility, provides counseling, and develops a rehabilitation plan with the disabled veteran. The veteran is then handed off to a vocational rehabilitation specialist who provides case management services to the veteran and is responsible for providing employment services.

⁸⁰ Ibid.GAO, p. 19.

⁸¹ GAO, p. 16.

⁸² DOL 9002.

⁸³ SESA, p. 2.

⁸⁴ GAO/HRD 84-9, May 1984; GAO/HRD 92-100, September 1992; GAO/HRD 92-133, September 1992; and GAO/HRD 96-155, September 1996.

⁸⁵ Final Report of Audit: VA *Vocational Rehabilitation Program*, Report # 8R6-B99-045, p. 13.

⁸⁶ VR&C Roundtables, Washington D.C., November 12, 1997, and January 12, 1998.

Several years ago the VR&C Service began contracting for employment assistance and case management services, although those services are authorized from DOL-funded veterans employment specialists. In some VA regional offices, contract services supplemented employment assistance services provided by veterans' employment specialists. In other offices, they substituted for the DOL-funded services. In FY 1997, VR&C spent \$12 million for case management services contracts and \$4 million for employment services contracts. Those expenditures did not include the cost of staff time devoted to administering the contracts, which included referrals and correspondence, overview of services, contractor training, and payment authorization. The VR&C Design Team noted in its recent report that contracting "has reached a point where it has become institutionalized as a standard operating practice."

In FY 1995, DOL-VETS and VR&C Service initiated a cooperative agreement to jointly improve the delivery of employment services for VR&C program participants. More than 450 DVOP specialists received training to acquire a better understanding of the VR&C program and to improve their skills for providing individualized job development services to disabled veterans in the VR&C program. DOL and VR&C initiated mutual efforts to ensure earlier involvement of DVOP specialists in individual veterans' career counseling, and implementation of uniform reporting procedures was initiated. Outcomes of this initiative seem to have depended upon the skill and efforts of individual staff members, in some states working quite well and in others yielding very little demonstrable improvement. Different reporting criteria and incompatible reporting systems remain a major obstacle to successful interagency cooperation in serving a common client.

Restructuring Service Delivery

The Commission proposes a complete restructuring of the current veterans' employment program in two ways. First, it recommends establishing two new programs focusing on case management, marketing, and job search skills training—the Veterans' Case Manager (VCM) program and the Veteran's Employment Facilitator (VEF) program. Second, the Commission proposes revising the system of priority for services.

If everyone is first priority, then no one is first priority. The Commission proposes a redirection of priorities to ensure priority service for veterans who most need assistance in overcoming barriers to employment or who are making their transition to civilian life.

The majority of veterans of America's all-volunteer military have marketable job skills and are highly employable. They neither require nor will particularly benefit from staff-intensive assistance. "The needs of most veterans will be met by giving them informed access to high tech tools."⁸⁷ Priority of service for those veterans who need additional services because they are making the transition to civilian life, or who have a service-connected disability or other barrier to employment should be available through all federally funded employment and training programs, not just the Wagner-Peyser funded public employment service. With the exception of disabled veterans and veterans facing barriers, the Commission has heard from numerous sources that this transition is generally completed within 4 to 5 years after leaving the military.⁸⁸

⁸⁷. SESA, p. 2.

VCM Program:

The VCM program would provide case management services to disabled veterans and veterans facing employment barriers. Recently separated veterans who are neither disabled nor face employment barriers would receive primarily job search assistance to reinforce job search skills taught in their preseparation TAP.

Case management is a client-centered, goal-oriented process to assess a veteran's need for particular services and assist in obtaining them. After completing an initial assessment, the VCM would be responsible for facilitating and managing the provision of specific services to help the veteran overcome his or her difficulties in obtaining suitable employment.

For disabled veterans and veterans facing employment barriers, timely access to the full array of job search assistance and training is paramount to ensure that they not only obtain a job but that they are prepared to remain employed in an increasingly volatile job market. VCM staff would ensure that the special needs of individual veterans are identified and met through intensive one-on-one personalized services provided by a wide array of trained professionals. Case management services can be grouped into six broad categories: assessment, job development, job search assistance, tracking/monitoring, referral to training services, and referral to supportive services.

As previously noted, the proposed alternative method of service delivery would represent a change in both the population receiving veterans' employment services and in the services they receive.

VEF Program:

The sole duties of the VEF would be –

- ◆ Marketing servicemembers and veterans to local employers.
- ◆ Conducting TAP workshops.

The scope of the VEF position should be limited to these two functions to ensure that staff resources are not eroded by other demands.

Historically, employers have been omitted from discussions regarding priority of service. Yet only employers can offer a job, and thus, only employers can give veterans preference in hiring. According to The Gallup Organization survey only 26 percent of employers actively recruit veterans.⁸⁹ Teaching a servicemember/veteran how to find a job (through TAP services) and marketing veterans to employers (creating a demand for veteran applicants) are two key components to ensuring that veterans obtain jobs after separation from the military. Successful local marketing requires someone familiar with both local employers and employment trends. Both of these functions, facilitating TAP workshops and marketing to local employers, require similar skills and, therefore, are easily combined into one position.

⁸⁸. SESA, p. 3.

⁸⁹. The Gallup Organization, National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military, December 4, 1998, p. 16.

FINDINGS

"We need to consider government's role in providing labor market information, job placement services, and job training. These (veteran-specific) programs were initiated in 1945 and were created, obviously, for a different era, economy, and worker. Federal job training programs are rooted in the 1960's and affect such a small percentage of the population. We need to rethink the government's role in providing labor market, job training and placement services that consider today's technology and the growth of the private sector in these areas."⁹⁰

Veterans who have a service-connected disability, face employment barriers, or are recently separated from active duty have the greatest need for intensive, individualized employment services. However, these veterans frequently do not receive the services they need or desire because:-

- ◆ The law gives a priority to Vietnam-era veterans who, as a class, average more than 50 years of age and whose 1997 average annual unemployment rate was 3.1 percent—lower than all veterans (3.4 percent), young veterans 20 to 24 years of age (10.6 percent), and veterans 35 to 39 years of age (5.1 percent).⁹¹
- ◆ Veterans' employment services are provided in accordance with prescriptive and inflexible process-oriented provisions that have become obsolete as employment service delivery methods have evolved.
- ◆ DVOP and LVER staff devote the majority of their time to veterans who need minimal assistance (because they are job ready), but fewer than 1 percent of veterans seeking employment assistance receive intensive one-on-one case-managed assistance.
- ◆ Veterans' employment services are funded through noncompetitively awarded grants with no real accountability for actual employment outcomes or cost-effective administration. SESA grantees vary widely in administrative costs, with these costs exceeding 25 percent in about half of the states, indicating that there are unrealized opportunities for reducing administrative costs. Unnecessary administrative costs result in reduced services to veterans. Program performance also varies widely among states, with placement rates for veterans ranging from 6 to 48 percent.
- ◆ The current employment services priorities fail to focus on veterans most in need of assistance.
- ◆ Employment services to veterans are of questionable value and would be improved if —
 - ❖ The grants for providing those services were awarded state by state on a competitive basis.
 - ❖ The grantees were given flexible and nonprescriptive direction to provide job-seeking skills; job development and referral services to disabled veterans, veterans facing employment barriers, and recently separated veterans; and to facilitate TAP workshops and market veterans' employment to local employers.

⁹⁰. Carol D'Amico, Senior Fellow, Hudson Institute, Forecasts for the 21st Century Roundtable, January 15, 1998.

⁹¹. Department of Labor, Bureau of Labor Statistics, Employment status of persons by veterans status, Average Annual 1997 (based on CPS), Table 1.

- ◆ Service providers would provide better service if they were accountable for clear outcomes-based performance standards and the cost-effectiveness of their operations.
- ◆ Although the DVOP and LVER programs were created separately for different purposes, there is, in fact, little difference in the day-to-day customer service provided to veterans by the staffs of these programs. DVOP and LVER staff spend most of their time on two tasks: (1) intake and assessment and (2) job search and referral.
- ◆ The employment search needs of many job-ready veterans could be met primarily through electronic information systems. Such systems are increasingly important to labor exchange programs for providing timely employment services.
- ◆ Employers, the silent partners in the employment equation, are not averse to hiring veterans if there is an easy way to locate qualified veteran applicants. Only 10 percent of employers know to contact the State Employment Service to locate job seekers who are veterans.⁹²
- ◆ VA's VR&C program does not have effective systems in place to send disabled veterans to on-the-job training, provide them with job-seeking skills training, and help program participants find suitable employment. Nor does the program have an effective way to measure employment outcomes.
- ◆ Veterans' employment performance measurements reported by state ES offices and the SESAs are dramatically inconsistent with data reported by BLS. Good program management and policy decisions require reliable and consistent data.
- ◆ Veterans are not just another special interest group deserving of a special employment program. Veterans are a diverse group of individuals who have served their country and who have diverse transitional employment and training needs.
- ◆ National policy must, therefore, ensure that these needs can be met through the full array of all federally funded employment and training programs.

RECOMMENDATIONS

That the Congress enact legislation to –

- ◆ Establish an employment and training service priority for veterans who have a service-connected disability, face employment barriers, or are recently separated from active duty in all federally funded employment and training programs for which they are eligible. Disabled veterans would have a lifetime priority for employment and training services. Veterans facing employment barriers would have an employment service priority for as long as their barriers persisted. Veterans who were recently separated from the Armed Forces would have an employment and training service priority for 4 years from date of discharge or release.
- ◆ Replace the DVOP and LVER programs with –
 - ❖ A new VCM program to provide job-seeking skills, job development, and referral services to disabled veterans, veterans facing employment barriers, and recently separated veterans.

⁹² The Gallup Organization, National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military, December 4, 1998, p. 21.

- ❖ A new VEF program to facilitate TAP workshops and market veterans' employment to local employers.
- ◆ Provide that grants or contracts for federally funded employment services for veterans under the VCM program and the VEF program be competitively awarded by DOL on a state-by-state basis so that the most cost-effective organizations provide services.
- ◆ Establish clear employment outcome measures (such as veterans entered employment, case-managed veterans entered employment, and veterans remaining employed for each year up to 3 years after entering employment) for the competitively awarded grants for the VCM Program.
- ◆ Revise existing reporting requirements for process measures and relative performance standards for determining compliance with requirements for providing employment services to veterans.
- ◆ Require that VA incorporate the same employment outcome measures in performance measurement standards for the VR&C program.
- ◆ Establish clear outcome measures (such as employer contacts resulting in the hiring of veterans and satisfaction of TAP workshop participants) for the VEF program.
- ◆ Require that case management and employment services now being provided to VR&C participants by VA-funded contractors be provided by VCM staff as part of the VCM program grant.
- ◆ Require DOL to resolve significant discrepancies between the data from the BLS biennial report on the Employment Situation of Vietnam-era Veterans and the VETS' ETA 9002 Report regarding the number of veterans who use state job services.

BUDGET IMPLICATIONS - ISSUE II.B

1st-year savings.....	\$ 50 million
5-year cumulative savings.....	\$268 million

Underlying Assumptions

- ◆ VCM funding equivalent to 1,610 positions at average current cost of DVOP position.
 - ❖ 1,156 for veterans with employment barriers.
 - ❖ 284 for recently separated veterans.
 - ❖ 170 for Chapter 31 program participants.
- ◆ VEF funding equivalent to 552 positions at average current cost of LVER position.
 - ❖ 340 positions for TAP workshop facilitation (two for every TAP site)
 - ❖ 212 positions for marketing (one for every 100,000 veterans in civilian labor force).
- ◆ \$16 million annual VA contractor savings in VR&C.
- ◆ Program funding inflated by 3 percent in outyears.

ISSUE II.C - MARKET VETERANS TO EMPLOYERS

Can the Federal Government create a more favorable job market for separating servicemembers and recently separated veterans?

DISCUSSION

Background

Seven years into a period of sustained economic expansion, the unemployment rate for newly separated veterans remains comparatively high.

BLS unemployment data reveal that –

- ◆ Unemployment rates for male veterans aged 20 to 24 and 35 to 39, the ages when most servicemembers separate or retire,
 - ❖ Are higher than rates for other veteran age cohorts.⁹³
 - ❖ Are higher than rates for similar nonveteran males.⁹⁴
- ◆ The median duration of unemployment was 7.2 weeks for veterans aged 20 to 24 and 10.1 weeks for veterans aged 35-39.⁹⁵

Nevertheless, Dr. Carol D’Amico, Senior Fellow at the Hudson Institute, told the Commission that veterans have solid grounding in basic skills, are disciplined, have a demonstrated positive work history, are highly motivated, and have shown an ability to continually upgrade their skills.⁹⁶

Analysis

The difficulty in correcting the disproportionately low employment seen in newly separated veterans may have its origins in the gap that is sometimes said to be appearing between the military services and American society. In a recent article published in the *National Journal*, General John M. Shalikashvili, retired Chairman of the Joint Chiefs, was quoted as saying, “I share deeply the concern that we are living through a period when the gap between the American people and their military is getting wider. It’s not just a matter of fewer and fewer Congressmen and Senators having military experience. The same phenomenon exists in any roomful of bankers, or college presidents, or other opinion-shapers.”⁹⁷

This growing lack of civilian understanding of military life and the attributes of those who successfully complete military service may explain why many employers do not consciously think about hiring servicemembers and veterans.

⁹³. DOL, Bureau of Labor Statistics, Table 1 (part of an unpublished table package), Employment Status of Persons by Veteran Status, Average Annual 1995, 1996, and 1997.

⁹⁴. Ibid.

⁹⁵. DOL, Bureau of Labor Statistics, Table 5: Duration of Unemployment, Average Annual 1995, 1996, 1997.,

⁹⁶. Carol D’Amico, Senior Fellow, Hudson Institute, written remarks, Forecast for the 21st Century Roundtable, January 15, 1998.

⁹⁷. Kitfield, James. A Few Good Men, *National Journal*, June 13, 1998, pp. 1350-1358.

Unemployment, however, is much more than a person not working. Nationally, it represents lost productivity and lost tax revenue that cannot be recouped. For many individuals, unemployment brings lost income, periods without healthcare coverage, increased family stress, and diminished self-esteem.

Regardless of the many reasons why veterans are unemployed, only employers have the ability to offer jobs. It is the sense of the Commission that employers would be more likely to seek out veterans as potential employees and to hire them when they apply for jobs if they knew the personal attributes and worker characteristics that veterans must develop to successfully complete their military service. Each employer who understands that hiring a veteran is a good business decision will create more job opportunities for veterans and enhance the likelihood for a successful transition to civilian life.

In the last decade, intermittent, ad hoc marketing of veterans to employers by DoD, DOL, and VA achieved limited results. Those Departments each administer programs targeted to assist specific constituencies (servicemembers, veterans, and disabled veterans) in obtaining meaningful employment. However, a general and persistent lack of awareness among employers as to where and how to recruit servicemembers and veterans hamper their efforts.

These assertions are well supported by The Gallup Organization's "National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military" conducted during the summer of 1998. Almost three-quarters (74 percent) of all employers surveyed reported that they had employed veterans.⁹⁸

In contrast, but still supportive of the Commission's observations The Gallup Organization survey found that only about one-quarter (26 percent) of employers actively recruited veterans.⁹⁹ Again, larger companies tended to recruit veterans more actively than smaller companies. The Gallup Organization asked employers who did not actively recruit veterans "Why not?" The most common answer (29 percent) was that they did not gear recruiting toward any specific group. The second most common response (21 percent) was that the employer had never considered recruiting veterans.¹⁰⁰

There is still another reason why most employers do not actively recruit veterans. They do not know where to look. When asked if they wanted to hire a veteran, did they know whom to contact, most employers about two-fifths (42 percent) of them said they did. Of these employers, almost half (48 percent) incorrectly identified the VA, and one-quarter (25 percent) cited the local job service office in their state.

When asked what advantages and disadvantages veterans have compared with nonveterans, employers were very hesitant to draw distinctions. Two-fifths (40 percent) of all employers said that there was no single advantage veterans had over nonveterans and four-fifths (80 percent) said veterans did not have any disadvantages compared with nonveterans.¹⁰¹

⁹⁸ The Gallup Organization, National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military, December 4, 1998, p. 11.

⁹⁹ Ibid.

¹⁰⁰ The Gallup Organization, Ibid. p. 16

¹⁰¹ The Gallup Organization, Ibid. pp. 38, 40.

A sustained national marketing program directed at employers, coupled with the development of an easily accessible source of information about qualified veteran applicants, is needed to improve employment opportunities for servicemembers and veterans. An ongoing, independent, presidentially- appointed, nonpartisan Veterans' Employment Network (VEN), supported by minimal staff and contract marketing, could achieve this goal.

FINDINGS

- ◆ Unemployment rates for veterans in certain age group who are recently separated from active duty are higher than for their civilian counterparts.
- ◆ Any effort to improve the employment status of veterans is dependent upon employers, since only employers are in a position to hire veterans.
- ◆ There is a fundamental lack of awareness by civilian employers of the positive personal and professional characteristics possessed by most servicemembers and veterans. Previous attempts to inform the public and employers of these attributes have been short-lived and limited.
- ◆ There is also a general lack of awareness among employers of where and how to recruit veteran applicants for civilian jobs.
- ◆ A sustained national marketing program can favorably influence employer perceptions of veterans, and hence hiring decisions. It would be particularly cost effective to target the largest, 1 percent of employers, who employ one-half of all civilian employees.

RECOMMENDATIONS

That Congress enact legislation requiring the President to establish an independent organization, the VEN, to –

- ◆ Raise employer awareness of the advantages of hiring separating servicemembers and recently separated veterans.
- ◆ Facilitate the employment of separating servicemembers and veterans through America's Career Kit, the national electronic labor exchange.
- ◆ Direct and coordinate national, state, and local marketing initiatives.
- ◆ Be led by a Board of Directors consisting of high-level individuals representing constituencies integral to ensuring successful employment of servicemembers and veterans. The Board of Directors should include, but not be limited to, representatives from –
 - ❖ Military Services and Joint Chiefs of Staff.
 - ❖ Major national corporations.
 - ❖ National business associations.
 - ❖ National unions.
 - ❖ Representatives of state public labor exchanges.
 - ❖ National Veterans Services Organizations (VSOs) and Military Service Organizations (MSOs).

BUDGET IMPLICATIONS - ISSUE II.C

1st-year costs.....	\$10million
5-year cumulative costs.....	\$52 million

Underlying Assumptions

- ◆ Annual cost of \$7 million for contract support for design, production, and distribution.
- ◆ Staff and operational annual cost of \$2 million.
- ◆ Board member and employer annual travel of \$700,000.
- ◆ VEF's \$900,000 training cost for first 2 years.
- ◆ Program funding inflated by 3 percent in outyears.

ISSUE II.D - TARGET ELECTRONIC EMPLOYMENT ASSISTANCE

How can the emerging electronic labor marketplace be improved to better assist servicemembers and veterans in finding civilian employment?

DISCUSSION

Background

Department of Labor

The key step in finding a job is establishing a link between the individual seeking a job and an employer with a job to fill. Historically, the public employment service established this link through the mediation of an ES employee who, based on his or her judgment of appropriate matches, made the connection between the two. However, the labor exchange process is evolving away from such mediated services toward facilitated services in which the ES employee makes resumes and job listings available to employers and job seekers, respectively, who then decide for themselves which matches are appropriate.

DOL has developed computerized databases to implement this facilitated job-matching process. America's Career Kit is a DOL platform of four integrated electronic programs that form the emerging national electronic labor marketplace and on which enhanced electronic services for veterans can be built. The four programs are –

- ◆ AJB, America's Job Bank, the largest and most frequently visited job bank on the Internet. Every day 50,000 job seekers visit AJB to view 1 million jobs on-line. On any given day, 25,000 employers register jobs electronically on AJB.
- ◆ ATB, America's Talent Bank, where people can post their resumes electronically. Employers regularly search this database to find suitable candidates, so one resume posted on ATB can be seen by thousands of employers.

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- ◆ ACINet, America's Career InfoNet, which provides information about employment trends – what occupations are growing, what occupations are shrinking, how much different jobs pay, and what kind of training is needed to qualify for specific jobs.
- ◆ ALX, America's Learning Exchange, which helps job seekers find the training they need to prepare for a new career or to upgrade skills needed to progress up the career ladder. This includes already-developed education and training (technology-based materials, distance learning, and traditional courses), as well as certification and licensure information.

DOL is in the process of implementing several special features in both AJB and ATB intended to enhance priority of service to veterans:

- ◆ While a job is in the AJB queue (approximately a 24-hour period after a job announcement is posted and awaits approval by the state), veterans' employment service providers in all DVOP specialists LVERs) can refer veterans to that job. When the job moves from the AJB queue to on-line status, the software will automatically refer qualified veterans.
- ◆ When employers request applicants from ATB, the software currently ranks veterans ahead of equally qualified nonveterans. As a system addition, veterans soon will be ranked by veteran category (special disabled, Vietnam-era, disabled, and other eligible veterans), and veteran status, by category, will be a mandatory part of registration data for ATB.
- ◆ A self-help tutorial for converting descriptions of military skills to descriptions of comparable civilian skills will be added.
- ◆ Federal contractor jobs currently are flagged for exclusive viewing by veterans' employment service providers. Planned system additions include a welcome screen for AJB employers, seen immediately after sign-on, that will state, "Employers who are federal contractors can find important information about their responsibilities by clicking here."

Department of Defense

DoD operates two automated systems to assist separating servicemembers in locating civilian jobs. These programs predate the DOL programs just described.

- ◆ DORS, Defense Outplacement Referral Service, is an electronic resume system available to separating servicemembers, spouses, and DoD civilians 180 days before and 180 days after separation. Servicemembers may access DORS through computers located in 237 transition offices worldwide. In FY 1997, 60,000 resumes were entered in DORS, 57,000 requests for resumes were made by 3,500 employers, and 1.9 million resumes were referred.
- ◆ TBB, Transition Bulletin Board, is an electronic bulletin board where employers list want ads, business opportunities, products and services, and employment events. TBB can be accessed on-line. In FY 1997, 3,000 employers placed 90,000 want ads on TBB.

Department of Veterans Affairs

VA operates a program to assist disabled veterans:

- ◆ REVERE, Rehabilitated Veterans Employment Referral, is an electronic resume system where disabled veterans can post mini-resumes. This program, implemented in 1997, contains the resumes of approximately 600 disabled veterans.

Analysis

Timely information about job opportunities is crucial to successful job searches. In a survey of veterans who used the state-run ES, 39 percent reported that they did not receive information about available jobs even though 88 percent wanted that information.¹⁰² These statistics mean that more than one-third of the veterans who came to the local ES office in search of employment left without receiving information about available jobs.

The public labor exchange is rapidly becoming dependent on Internet-based, self-service programs; however, there is no one electronic location for employers and job-seeking veterans to easily find each other. According to The Gallup Organization survey 22 percent of employers use the Internet to recruit.¹⁰³ Additionally 60 percent of employers stated that they would likely use a veteran website to fill job openings at their company.¹⁰⁴

Veterans' and Servicemembers Internet Site (VASIS)

To improve the electronic labor marketplace for servicemembers and veterans, a new, separate, specialized electronic site should be developed on DOL's America's Career Kit. This customized electronic site would give cosponsors (DoD, DOL/VETS, and VA) ownership and provide employers and job seekers with easy access to each other on the national electronic labor exchange system operated by DOL. Cosponsors would benefit from a greatly expanded customer service base, reduced operational costs, and expanded marketplace access.

VASIS would be the one electronic location designed for both employers seeking veterans and veterans seeking employment. VASIS would allow employer vacancies to be Internet based, making information universally accessible for servicemembers and veterans. Job data and resumes entered once would appear on both the VASIS and the AJB/ATB sites.

VASIS also would help satisfy a growing employer demand for qualified veteran applicants resulting from a successful marketing program to employers. (The Commission makes a separate recommendation regarding marketing to employers.) If employers find that they can hire good employees using VASIS, they will increase the number of jobs they list. This, in turn, will create even more job opportunities for servicemember and veteran job seekers.

A customized veterans' site would offer several major new advantages to transitioning servicemembers, veterans, and providers of employment service:

¹⁰²VETS Customer Satisfaction Surveys: Employer and Veteran Users of the Job Service, April 28, 1995, p. 69.

¹⁰³The Gallup Organization, National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military, December 4, 1998, p. 30.

¹⁰⁴The Gallup Organization, Ibid. p. 52

- ◆ Veterans and servicemembers would have immediate and seamless access to both the employers who now use the DORS/TBB systems and to the several hundred thousand employers who use AJB and its affiliated state systems. The number of jobs posted and resume searches conducted by the AJB pool of employers currently exceeds 250,000 per month. That level of activity is projected to rise because of the popularity of the Internet service and because of planned DOL and state marketing campaigns.
- ◆ The core AJB system is being programmed with a special service for veterans called “instant referral.” This system would permit transitioning servicemembers to establish one or more job search profiles and then have their resume automatically sent to an employer whenever a job matching their criteria is posted to the system. This service would be extremely valuable to servicemembers stationed overseas or aboard ships where there is a communications lag between the posting of a job and its delivery to the stand-alone system at their duty station.
- ◆ Cosponsoring agencies will have the advantage of ongoing technical development for the basic America’s Career Kit system financed by DOL. As new features are added to the core system components (AJB, ATB, ACINet, and ALX), they will become immediately available to the customized veterans’ site. This development work has been costing an averaging over of more than \$5 million per year and has resulted in a new or enhanced set of services every 6 to 9 months. As part of the DOL electronic platform, the cosponsors may suggest enhancements (to be financed by DOL) as part of this ongoing development effort.
- ◆ In addition to using the customized site to find their first job, servicemembers and veterans will be able to use the special services provided by the customized site and the linked national/state services for equally critical second and third career transitions. America’s Career Kit, and thus VASIS, is designed to encourage lifelong career self-management.
- ◆ Because VASIS will encourage self-service by both job seekers who are veterans and employers, more of the staff resources of co-sponsoring agencies’ can be focused on the servicemembers and veterans needing individual employment assistance.
- ◆ Cosponsoring agencies will be able to order labor market outcome data on servicemembers and veterans up to 5 years after they have separated from the military. This service will provide a wealth of empirical information about employment programs’ performance, something that is not currently available.
- ◆ Creation of VASIS would empower servicemembers making the transition to civilian life to take responsibility for their job search by giving them access to the data they need for their pursuit of a suitable job. By combining data now maintained by three different Departments, VASIS would give servicemembers and veterans one place to go for seamless access to all of the relevant data maintained by the government.

FINDINGS

- ◆ DOL ETA is making great strides in creating America’s first national automated labor exchange. This platform has enormous potential for servicemembers, veterans, and employers.

- ◆ A veteran cannot obtain a job unless he or she finds an employer with a job opening. An employer cannot hire a veteran unless he or she can find a veteran qualified for the job that must be filled.
- ◆ A critical key to sustaining employer demand for veteran employees is easy access to a pool of qualified veterans.
- ◆ Integrated electronic programs can empower program users (both veterans and employers) by giving them access to job-matching services at their convenience and on their time schedule, while eliminating the need for a third party to mediate the exchange of data.
- ◆ America's Career Kit, established by DOL, is a set of integrated electronic programs that can satisfy the need for job-matching services. A customized veterans' electronic site on this electronic labor market information platform can satisfy the need for specialized services for veterans and for employers seeking to hire veterans.
- ◆ Currently DoD, DOL, and VA each run their own electronic employment information systems. There is no one place for employers to easily find servicemembers and veterans seeking employment.
- ◆ VA's VR&C program staff do not have electronic access to state-specific labor market information.

RECOMMENDATIONS

Within 180 days, DOL, DoD, and VA design, establish, and maintain a customized, separate VASIS for servicemembers, veterans, and employers on DOL's electronic platform.

That the departments also –

- ◆ Market VASIS to employers, associations of employers, veterans, veterans' service organizations, and military associations.
- ◆ Train employment service providers and servicemembers to use VASIS.

BUDGET IMPLICATIONS - ISSUE II.D

1st-year costs.....\$0.4 million
5-year cumulative costs.....\$0.6 million

Underlying Assumptions

- ◆ DOL/ETA will continue to make \$5 million annual capital investments.
- ◆ DOL/VETS, DoD, and VA will share initial customizing costs of \$400,000 and an annual operational cost of \$30,000.
- ◆ Operational costs have been inflated by 3 percent in outyears.

ISSUE II.E - IDENTIFY CREDENTIALING BARRIERS AND OPPORTUNITIES

How can employment opportunities in professions requiring civilian credentials be improved for servicemembers in related military occupations?

DISCUSSION

Background

Credentialing bodies develop standards for entry into occupations that require standards of professional and technical competence. The three principal forms of credentialing are licensure, certification, and apprenticeship:

- ◆ Licensure is the procedure by which a government agency authorizes someone to engage in a given occupation. The absence of a license normally precludes the practice of that occupation. Any number of qualifications may be considered to meet licensing standards.
- ◆ Certification is the way a nongovernmental agency or association recognizes the competence of an individual who has demonstrated certain predetermined qualifications. Unlike licensure, certification usually is optional but may enhance an individual's marketability to prospective employers.
- ◆ Apprenticeship, as a form of credentialing, provides training in skilled, blue-collar professions. These training programs normally result from cooperation between organized labor and industry to guarantee a pool of qualified employees, but also may be sponsored solely by the industry or union. Apprenticeships combine on-the-job training with supplemental classroom instruction. In the private sector, apprenticeships are usually local and often specific to a certain job market or employer.

DoD's comprehensive attempt to enhance servicemembers' ability to become credentialed is through the Defense Activity for Non-Traditional Education Support (DANTES). DANTES coordinates with civilian credentialing boards to develop agreements that grant military officials the authority to administer certification and licensure exams. DANTES then provides military personnel with access to these exams all over the world. DANTES has agreements with more than 32 certification agencies and offers between 150 and 160 different certification examinations. In FY 1997, DANTES directly funded 8,000 of the 25,200 exams administered. Because DANTES' funding is uncertain after FY 1998, its ability to provide certification opportunities for servicemembers may be in jeopardy.

Until recently, the impact of civilian credentialing on transitioning military personnel was not well researched. In August 1997, DOL/VETS, through a grant to The American Legion, published a report entitled *Study of Civilian Licensure and Certification for Veterans*. According to the DOL study, 11 military occupations have federal licensure requirements, and 63 military occupations have state licensure requirements.¹⁰⁵ This study concentrated on

enlisted military occupational specialties in the healthcare and aircraft maintenance fields having civilian equivalents subject to either licensure or certification. The DOL study indicated civilian credentialing could pose a significant barrier to employment for transitioning military personnel in these fields.

Commission Research:

The Commission identified an additional 75 enlisted military occupational specialties with civilian counterparts having either licensure or certification requirements.¹⁰⁶ More than one-third of transitioning military personnel are in occupations directly affected by licensure or certification. The proportion of personnel subject to certification and licensure was 50 percent or more in 4 of the 10 DoD-designated occupational areas.

Table 1 presents a BLS summary of information on credentialing requirements for those enlisted civilian-equivalent occupations for which there is a direct correlation between the occupational title of the civilian equivalent and the license or certification. For each occupation included, the table shows the number and percentage of transitioning enlisted military personnel in FY 1997 (shown as occupational losses), the number of civilian jobs, and the projected private sector growth. Occupations outside the healthcare and aircraft maintenance fields with losses of more than 4,000 military personnel in 1997 were electronics mechanic (8,241), engine maintenance mechanic (5,635), automobile mechanic (4,980), cook (4,821), truck driver (4,123), and police officer (4,094).¹⁰⁷

¹⁰⁵ DynCorp with HumRRO, *Study of Civilian Licensure and Certification for Veterans*, August 19, 1997.

¹⁰⁶ DynCorp, *Barriers to Veterans' Employment Presented by Civilian Licensure and Certification*, June 4, 1998, p. 14.

¹⁰⁷ DynCorp, p. 13

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Table -1

Summary of Credentialing Requirements for Top 20 Enlisted Civilian Equivalent Occupations

Enlisted Civilian-Equivalent Occupational Title	Federal Licensure	State Licensure	National Certification	Occupational Losses	Occupational Losses as a Percentage of Total Losses w/ Credentialed Civilian Equivalents	Occupational Losses as a Percentage of Total Enlisted Losses	No. of Jobs 1996 (thousands)	Projected Percentage Change (1996-2006)
Airframe & Powerplant Mechanic	X			10,122	12.48	4.71	137	13.2
Electronics Mechanic			X	8,241	10.16	3.83	562	11.7
Maintenance Mechanic, Engine			X	5,635	6.95	2.62	45	7.1
Automobile Mechanic		X	X	4,980	6.14	2.32	775	12.4
Cook			X	4,821	5.94	2.24	435	4.7
Radiotelephone Operator	X			4,194	5.17	1.95	9	-33.7
Medical Assistant			X	4,183	5.16	1.95	225	74.0
Truck Driver		X		4,123	5.08	1.92	3,050	14.5
Police Officer		X	X	4,094	5.05	1.90	413	17.8
Able Seaman	X			3,384	4.17	1.57	22	-6.2
Electrician		X	X	2,981	3.68	1.39	575	9.1
Emergency Medical Technician		X		2,618	3.23	1.22	150	45.1
Computer Operator			X	2,419	2.98	1.12	291	-32.1
Guard, Security		X	X	1,867	2.30	0.87	955	23.1
Radio Officer	X			1,766	2.18	0.82	See Radiotelephone Op	
Fire Fighter		X	X	1,661	2.05	0.77	225	6.1
Aircraft Body Repairer	X			1,463	1.80	0.68	225	12.8
Dental Assistant		X	X	970	1.20	0.45	202	38.1
Air Traffic Control Specialist, Tower	X			967	1.19	0.45	29	-0.3
Personnel Recruiter			X	748	0.92	0.35	328	17.9
Total	6	8	12	71,237	87.83	33.13	8,653	

It is important to note that although individual military occupational specialties are classified in only one area, their civilian equivalent occupations may be found in several. As an example, in Table 1 the single category of electrician has six separate civilian equivalents.

Forty-seven credentialed civilian-equivalent occupations were identified by the Commission as having national certification requirements.¹⁰⁸ As noted previously, certification is typically considered an optional credential that does not necessarily bar entry to employment in the same way that licensure does. In recent years, however, the number of

¹⁰⁸DynCorp, *Barriers to Veterans' Employment Presented by Civilian Licensure and Certification*, Appendix F, June 4, 1998.

occupations for which certification is available has increased steadily. People often seek the prestige associated with certification. Consumers also may seek practitioners who are certified. Even if certification does not bar entry into a field, the lack of that credential may hinder career advancement.

Moreover a growing trend has appeared among state licensing bodies to require individuals to pass a national exam given by a certifying body in order to obtain a license. In those occupations, the state, in effect, is requiring certification. An example would be the mandating by some states of an Automotive Service Excellence certification before a license is issued in the field of automotive repair.

Members of the Armed Forces, primarily sailors and Marines, have opportunities to enter apprenticeship programs certified by DOL. More than 41,000 servicemembers in 94 trades participate in the Navy's National Apprenticeship Program (NNAP). Almost 3,000 marines are enrolled in apprenticeships in 27 trades. To ensure that sailors get earn proper credit for their work, the Navy automated its logbooks to permit the tracking of both program participation and outcome. The Marines recently expanded their program, using the Navy's administrative capability.

The Navy has learned that apprenticeship enhances retention. There is a 78-percent reenlistment rate for participants in the Navy's apprenticeship program. The apprenticeship program has been a focus of the Navy's recruiting efforts, and the NNAP is featured on its Web page.

The Army terminated its apprenticeship program, finding that it was not practical, partially because of the administrative burden associated with documenting apprenticeship hours. As an alternative, the Army has moved forward with testing its Occupational Degree Program which awards college credit for work experience. The Air Force uses its Community College of the Air Force in lieu of apprenticeship programs.

Analysis

Education, training, and experience obtained by military personnel not only provide tangible benefits for the Nation's defense but also can make a significant contribution to a skilled civilian workforce. Recruits often enlist in the military to improve their future prospects for civilian employment. Servicemembers expect to be able to use skills gained during military service when they reenter the civilian labor market. Civilian credentialing requirements, however, can be a major obstacle. The inability of transitioning military personnel to meet civilian credentialing standards can, among other things, delay entry into the first civilian job, hinder achievement of full civilian employment potential, and impede career advancement.

A number of steps can be taken to better prepare servicemembers to meet civilian credentialing requirements. Information about the credentialing requirements for civilian counterparts of military occupations could be disseminated throughout an individual's military career, starting with initial skills training. During the transition period, that information should be reinforced. An initial briefing on credentialing requirements at the time of separation is too late to be effective. The earlier military personnel are informed of credentialing requirements, the more time they have to prepare for meeting civilian standards. With credentials in hand, newly separated veterans would be more marketable in the workplace.

DANTES, credentialing efforts are a step in the right direction. DoD should capitalize on credentialing information already offered on America's Learning Exchange (ALX) at DOL's America's Career Kit web site. DOL is now developing ALX and needs to ensure that this web site contains relevant information on occupational standards.

Another option is to conform military training programs more closely to training requirements for civilian-equivalent occupations. For example, a number of military healthcare training programs are accredited by civilian authorities, making it relatively easy for individuals completing these programs to become credentialed. The Commission believes it may be possible to adapt other training to civilian credentialing requirements without significant disruption to military requirements.

However, the mission-specific objectives of certain military occupational training may make it impractical to modify some training to meet civilian requirements. Training commands must determine the fields in which training that meets civilian credentialing requirements would be feasible and practical, from both a mission and cost perspective.

Closer coordination between DoD and DOL is needed to ensure that the training veterans receive through military apprenticeship programs is recognized for purposes of establishing civilian journeyman status. National military apprenticeships can be considered successful only if their participants are accorded journeyman status in the private sector. Recently an informal Joint Apprenticeship Steering Committee (JASC) was established to bring together all branches of military service, DOL's Bureau of Apprenticeship and Training (BAT), and private sector apprenticeship sponsors. At the Commission's June 4, 1998, roundtable on national military apprenticeship, representatives from the Services recommended that the JASC be formalized and meet regularly. The Commission believes this is a good idea. The JASC could provide guidance in making military apprenticeships comparable to training received in the private sector.

It is important that BAT actively work to keep private sector apprenticeship sponsors informed of the extent and quality of military apprenticeships. BAT directly oversees apprenticeship programs in 23 states and provides direct support to State Apprenticeship Councils in 27. These relationships put BAT in a position to increase the understanding of military apprenticeships by both organized labor and industry.

It would be helpful if DoD and DOL joined with the private sector to develop a glossary that would easily translate military experience and training into civilian nomenclature. Such crosswalk information would enable employers to better appreciate the important skills that veterans bring to the workplace.

Finally, credentialing boards should be provided with information about available documentation describing military training and experience. Many credentialing boards are unaware that such official documentation exists. If they were more familiar with the types of

Education, training, and experience obtained by military personnel not only provide tangible benefits for the Nation's defense but also can make a significant contribution to a skilled civilian workforce.

formal documentation available, such as the Certification of Release (DD 214) and the VMET Document (DD 2586), credentialing boards would be more likely to credit military training and experience.

More needs to be known about the extent to which military occupations outside of the healthcare and aircraft maintenance fields have civilian counterparts requiring credentials and the degree to which these requirements present employment barriers for transitioning servicemembers needs further development. The Commission believes that additional research into specific credentialing requirements is called for. Additional findings would enable Congress to address the true impact of certification and licensure on military personnel in specific career fields.

FINDINGS

- ◆ The civilian sector increasingly relies on credentialing to regulate entry into an occupation and to promote accountability for performance and public safety.
- ◆ More than one-third of separating enlisted personnel are in military occupations that have civilian equivalents with credentialing requirements.
- ◆ Civilian credentialing can present a significant barrier to employment for transitioning military personnel. Not only can it delay entry into employment, but also it can significantly impede career advancement.
- ◆ Improving the ability of military personnel to become credentialed while on active duty would greatly enhance their chances of entering the civilian workforce immediately upon discharge or separation.

RECOMMENDATIONS

That the Department of Defense –

- ◆ Inform servicemembers of licensure, certification, and apprenticeship requirements during initial skills training and throughout their military careers.
- ◆ Stay abreast of civilian credentialing standards and update the military occupational crosswalk information so that military experience and training can be translated more easily into civilian nomenclature.
- ◆ Determine the military occupations for which it is feasible to meet civilian credentialing requirements.
- ◆ Modify the VMET Document (DD 2586) to reflect the activities of servicemembers that are relevant to certification, licensure, and apprenticeship.
- ◆ Fund DANTES at a level that will ensure continuing credentialing opportunities for servicemembers. Consider increasing the funding to expand the number of exams available.

That the Department of Labor –

- ◆ Increase electronic information available on ALX regarding credentialing requirements.
- ◆ Ensure private sector apprenticeship sponsors are knowledgeable about and understand the quality of military apprenticeship training.

- ◆ In conjunction with DoD and VA, determine the extent to which credentialing requirements present employment barriers for transitioning military personnel in occupations outside of the healthcare and aircraft maintenance fields.
- That the Departments of Defense and Labor –
- ◆ Formalize and maintain the Joint Apprenticeship Steering Committee.
 - ◆ Provide civilian credentialing boards with information about available documentation describing military training and experience.

BUDGET IMPLICATIONS - ISSUE II.E

1st-year costs..... \$0.5 million
5-year cumulative costs..... \$0.5 million

Underlying Assumptions

- ◆ \$250,000 for focus groups.
- ◆ \$200,000 for further study.
- ◆ All other costs covered by existing appropriations.

ISSUE II.F - INCREASE ACCESS TO FEDERAL VETERANS' TRAINING PROGRAMS

How can employment training for veterans under Part IV-C of the Job Training Partnership Act (JTPA) be made more equitable?

DISCUSSION

Background

Public Law 105-220, the Workforce Investment Act of 1998, signed by the President on August 7, 1998, repeals JTPA effective July 1, 2000, and, in section 168, creates a Veterans' Workforce Investment Program (VWIP). Essentially, VWIP is the successor to the JTPA IV-C program. VWIP is authorized for not less than \$7.3 million for each year from FY 1999 through FY 2003. The following discussion and recommendations, while addressed to the JTPA IV-C program, are equally relevant to VWIP.

Historically, federal job-training funding earmarked for veterans has been allotted to the DOL/VETS under Part IV-C of JTPA.¹⁰⁹ For PYs 1996 and 1997, DOL/VETS was allotted \$7.3 million for the JTPA IV-C program.

¹⁰⁹29 U.S.C. sec. 1721.

The statutory intent of JTPA IV-C is to meet the employment and training needs of service-connected disabled veterans, Vietnam-era veterans, and recently separated veterans. (VWIP expands targeted group coverage by deleting “Vietnam-era veterans” and substituting “veterans who served on active duty in the armed forces during a war or in a campaign or expedition for which a campaign badge has been authorized.”) The employment and training services offered to each program participant are individually designed to overcome identified employment barriers and facilitate an unsubsidized job placement that meets the participant’s minimum economic needs.¹¹⁰

Prior to PY 1994, every state received formula-driven JTPA IV-C grants annually. Because each state’s allocation was small, approximately \$40,000 for most states, a significant portion of this extremely limited pool of training funds was consumed by overhead rather than used to fund training.

In PY 1994, VETS changed the JTPA IV-C fund distribution process to one of competitive two2-year grants. Under the new arrangement, a few states with the best proposed projects would receive a large enough allocation of funds to administer a meaningful program at a reasonable overhead cost. Fourteen competitive grants ranging from \$200,000 to \$850,000 were issued for PYs 1994 and 1995; 12 were issued for PYs 1996 and 1997.¹¹¹ The 1994 initiative increased the proportion of funds available for training by reducing administrative costs, ensured that the very best state proposals were funded, and enabled increased leveraging of matching funds.

Although these results are highly desirable and have improved program effectiveness in states receiving grant awards, 38 states now have no access to veterans’ training funds. At a hearing in Denver, the Commission listened to a number of DVOP and LVER staff in states without access to JTPA IV-C training funds as they spoke of the difficulty of getting veterans placed into training who are not job ready.¹¹² The Commission is concerned that 16 of the 18 states¹¹³ with the largest veterans’ population¹¹⁴ are among the 38 without access to JTPA IV-C training funds, as indicated in the chart below –

¹¹⁰U.S. Department of Labor Program Highlights, Fact Sheet OASVET No. 96-6.

¹¹¹Letter from Assistant Secretary Espiridion Borrego to the Commission, March 24, 1998.

¹¹²Commission on Servicemembers and Veterans Transition Assistance, Colorado Trip Report, December 8-9, 1997.

¹¹³Borrego, March 24, 1998.

¹¹⁴DOL, Bureau of Labor Statistics, Table 10C, Employment Status by State and Veteran Status 1997 (Annual Average).

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Table-2

State	Number of Returning Veterans PY 1996	Rank by Returning Veterans	Veterans in Labor Force 1997	Rank by Veterans in Labor Force	JTPA IV C Grant Award PY 1997
California	18,929	1	1,389,000	1	-
Texas	18,922	2	1,011,000	2	\$850,000
Florida	14,586	3	794,000	3	-
Virginia	11,597	4	424,000	10	-
Georgia	8,539	5	444,000	9	-
North Carolina	8,373	6	416,000	11	-
Ohio	7,589	7	674,000	4	-
New York	7,322	8	673,000	5	-
Illinois	6,649	9	590,000	7	-
Washington	6,595	10	396,000	12	-
Pennsylvania	6,460	11	662,000	6	-
Michigan	5,748	12	459,000	8	-
Maryland	4,728	13	298,000	18	-
Colorado	4,678	14	266,000	21	-
Tennessee	4,435	15	326,000	16	-
Alabama	4,407	16	221,000	25	\$438,000
Oklahoma	3,679	21	205,000	27	\$600,000
Indiana	3,597	22	339,000	14	\$611,000
Massachusetts	2,449	26	291,000	19	\$848,000
Nevada	1,687	33	117,000	33	\$250,000
Iowa	1,597	34	179,000	29	\$406,000
Hawaii	1,358	37	64,000	42	\$200,000
Maine	1,159	39	95,000	37	\$578,000
Utah	1,113	40	92,000	39	\$358,000
Idaho	1,000	41	74,000	41	\$242,000
North Dakota	601	47	40,000	48	\$459,000

Analysis

Alternative for Funding Distribution

It is important to note that veterans, unless they are also dislocated veterans, young veterans, or eligible for some other priority, may not get the training needed to be ready for employment. Of more than 100,000 veterans assessed as needing training to become gainfully employed, existing programs could enroll only 19,000.

DOL should implement a policy change that would make JTPA IV-C and VWIP training funds available to veterans nationwide through a national funding pool similar to that used for distributing training funds authorized by the Service Members Occupational Training Act. This change in how program funds are distributed could be accomplished administratively.

Funds allotted to the JTPA IV-C/VWIP programs would be obligated to an administrative entity (a state or nonprofit organization) that would make distribution from a national training fund pool. Veterans' employment service providers (currently DVOP and LVER staff) in all states could write training contracts for individual veterans until the pool of funds was exhausted. This would ensure equitable access to JTPA IV-C/VWIP training funds for all eligible veterans, regardless of state residence. At the beginning of each program year, the funding pool would be replenished with new program funds. Training providers would submit their invoices for payment to the central administrator of the funding pool.

A national JTPA IV-C/VWIP fund would –

- ◆ Make eligible veterans, rather than training program operators, the focus of the JTPA IV-C/VWIP programs and give all eligible veterans equal access to veterans' job training.
- ◆ Reduce administrative overhead costs, thereby increasing funds available for training.
- ◆ Reduce federal staff workload in grant administration from 12 grants to 1.
- ◆ Create the opportunity for a unified national reporting system of program outcomes.

FINDINGS

- ◆ Veterans continue to need the special job training services that JTPA IV-C funds.
- ◆ The current process for allocating veterans' job training funding excludes 81 percent of the veterans in the civilian labor force from access to JTPA IV-C-funded job training, the primary program for veteran-specific job training.
- ◆ DOL estimates that more than 80,000 veterans who need training to become gainfully employed are precluded from receiving training under the current funding process.
- ◆ Veterans would have more equitable access to job training if funding were allocated on a national basis to veterans, rather than to geographic jurisdictions and then to program providers.

RECOMMENDATIONS

That Congress appropriate sufficient funds (approximately \$32 million) to enable a viable national veterans' training program.

- ◆ That DOL make JTPA IV-C/VWIP training funds equitably available to all eligible veterans through a competitively selected executive agent, either a federal, state, or nonprofit organization with ability to disburse funds nationally. Under this system, veterans' employment service providers in all states (currently DVOP and LVER staff) would write training contracts for individual veterans until the pool of funds was exhausted. Training providers would submit their invoices for payment to the executive agent administering the funding pool.

BUDGET IMPLICATIONS - ISSUE II.F

1st-year costs..... \$ 25 million
5-year cumulative costs..... \$124 million

Underlying Assumptions

- ◆ Increased funding level is based on FY 1998 state grant proposals and universe of veterans assessed as needing job training.
- ◆ Policy change regarding dispersal of program funds does not affect program funding.

ISSUE II.G - PROVIDE INCENTIVES FOR FEDERAL CONTRACTORS TO HIRE VETERANS

How can federal contractors be encouraged to hire more veterans?

DISCUSSION

Background

Current law¹¹⁵ requires that federal procurement contracts for \$25,000 or more include a requirement that the contractor take affirmative action to employ and advance in employment those veterans who are qualified to do the job and who are special disabled veterans,¹¹⁶ veterans of the Vietnam-era,¹¹⁷ or any other veterans who served on active duty during a war or in a campaign or expedition for which a campaign badge has been authorized. These contractors also must list all employment openings in their organization with the state

¹¹⁵38 U.S.C. § 4212.

¹¹⁶38 U.S.C. § 4211(1) defines "special disabled veteran" as a veteran (1) rated by VA at 30 percent or more disabled, (2) rated by VA at 10 or 20 percent disabled in the case of a veteran who has been determined to have a serious employment handicap, or (3) a person who was discharged or released from active duty because of a service-connected disability.

¹¹⁷38 U.S.C. § 4211(2) and 38 U.S.C. § 101(29), defines "veteran of the Vietnam era" as an eligible veteran who served at least 1 day of active duty during the period that began August 5, 1964, and ended May 7, 1975. Veterans who were stationed in the Republic of Vietnam during the period February 28, 1961, through August 4, 1964, are also Vietnam-era veterans.

employment service. Additionally, contractors must report annually to the DOL on the number of their employees who are special disabled and Vietnam-era veterans; the total number of new employees hired during the period of the report and the number of those employees who are Vietnam-era or special disabled veterans; and the maximum number and the minimum number of employees of the contractor during the period covered by the report. DOL, in turn, reports annually to Congress on the number of complaints filed by special disabled and Vietnam-era veterans against contractors for failing or refusing to comply with this contract requirement. In FY 1997, DOL reported that 216 complaints were filed, 6 of which were found, after an investigation, to be violations.¹¹⁸

As of October 31, 1998, no agency may obligate or expend appropriated funds to enter into a contract with a contractor that did not meet its veterans' employment reporting requirements the preceding fiscal year.¹¹⁹

Analysis

The average age of Vietnam-era veterans is 50. Most Vietnam-era veterans were discharged or released from active duty more than 25 years ago. Contractor hiring incentives are no longer a transition benefit for these veterans and provide little assistance to most recently separated veterans making their transition to civilian life today.

The affirmative action requirement does not have an effective enforcement mechanism. DOL responds to complaints filed by veterans who believe that a contractor is not in compliance. The program is complaint driven, rather than compliance oriented. The Commission notes that a requirement to take affirmative action is not the same as a requirement to hire. Nor does it provide the same protections and benefits as a civil rights statute. Turning down a veteran's employment application does not necessarily mean that the contractor is not in compliance. This ambiguity makes enforcement of the requirement difficult.

DOL/ VETS notifies the Office of Federal Contract Compliance Programs (OFCCP) annually of the federal contractors that have failed to file a VETS 100 form reporting the number of special disabled and veterans of the Vietnam era hired in the past year.

In FY 1996 and FY 1997, 34,281 and 20,231 contractors, respectively, did not file their required annual report (VETS 100 form). According to VETS' *FY 1997 Annual Report to Congress*, "... the VETS 100 database shows that for the reporting period ending March 31, 1997, a total of 161,271 federal contractor employee sites submitted a VETS 100 Report.... Reports submitted showed a total of 55, 238 special disabled veterans and 1,147,179 Vietnam-era veterans noted as current employees." This means that these federal contractors had an average of 2.9 special disabled veterans and 7.1 Vietnam-era veterans on their payrolls.

The Commission recognizes the recent legislative prohibition on contracting with entities not meeting reporting requirements.¹²⁰ This should help. However, the Commission believes that an even better approach would be to provide federal contractors with an incentive to hire veterans.

¹¹⁸Department of Labor, *Annual Report to Congress*, 1997.

¹¹⁹Public Law 105-339, adding 31 U.S.C. § 1354.

¹²⁰Public Law 105-339, adding 31 U.S.C. 1354.

Instead of depending upon after-the-fact investigations of allegations that contractors have failed to take a required action, the hiring of veterans could instead be included as part of the past performance information that is evaluated when contractors compete for the award of future contracts. Evaluation points would be given to firms with exceptional records for hiring veterans.

Today, as part of their subcontracting plan, contractors make a commitment to award a certain percentage of the prime contract business to small business concerns, small disadvantaged business concerns, and women-owned small business concerns. These percentages usually range between 0 and 10 percent.

Prime contracts could include an analogous commitment to hire a specific percentage of veterans when filling the prime contractors' workforce.

Veteran employment, as a specific percentage of the subcontractor's workforce, could also be made a requirement of the subcontracting plan.

The objective is to create an incentive through the competitive award process for contractors to want to routinely hire veterans, particularly special disabled and recently separated veterans, to earn points in the evaluation of future contract proposals. These points, as part of the contractors' past performance rating, could be critical in determinations of contract awards. The VETS-100 data suggest that few if any contractors would be eligible for points based on past performance.

FINDINGS

- ◆ Prior to recent, but untested legislation, the law and regulations were ineffective in promoting veterans' employment with federal contractors.
- ◆ Although the new limitations on use of appropriated funds for contracts with entities not meeting veterans' employment reporting requirements hold promise, incentives for hiring veterans are more likely than after-the-fact regulatory enforcement to influence the hiring behavior of federal contractors.
- ◆ Veterans' employment incentives for federal contractors should apply to all veterans, particularly special disabled and recently separated veterans.
- ◆ The Departments of Defense, Veterans Affairs, and Labor have unique reasons to promote the hiring of veterans. These agencies also are responsible for a significant portion of all federal contracts awarded.

RECOMMENDATIONS

Congress should enact legislation to –

- ◆ Mandate that solicitations issued by the Departments of Defense, Veterans Affairs, or Labor for the procurement, by contract or grant, of real or personal property or nonpersonal services require offerors to include–
 - ❖ For purposes of evaluating past performance, a description of their program for hiring and promoting qualified eligible veterans.
 - ❖ As part of any required subcontracting plan, an affirmative commitment to hire eligible veterans as a specific percentage of the workforce.

- ◆ Provide that an offeror responding to a solicitation covered above will earn additional evaluation credit based on the likelihood of meeting the subcontracting goal regarding veterans as set out in its subcontracting plan.
- ◆ Provide that proposals found not to include an acceptable subcontracting plan will be rejected.
- ◆ Amend the current affirmative action requirements in section 4212 of title 38 to substitute “recently separated veterans” for “Vietnam-era veterans” and “disabled veterans” for “special disabled veterans.”

BUDGET IMPLICATIONS - ISSUE II.G

None

Underlying Assumptions

- ◆ Recommendations do not impact level of effort regarding program administration.

ISSUE II.H - IMPROVE EFFECTIVENESS OF THE ADMINISTRATION AND OVERSIGHT OF VETERANS' EMPLOYMENT AND TRAINING PROGRAMS

How can employment assistance for members of the Armed Forces and veterans be improved through a restructuring of the administration and oversight of veterans' employment and training programs?

DISCUSSION

Background

Veterans' employment programs began after World War I when the U.S. Employment Service helped place returning veterans in civilian jobs.¹²¹ Since 1980 the DOL/VETS has been headed by the Assistant Secretary of Labor for Veterans' Employment and Training.¹²²

DOL/VETS' primary responsibilities include –

- ◆ Administering veterans' employment program grants (totaling \$157 million in FY 1998¹²³) that fund nearly 3,000 state employment service DVOP specialists and LVERs.

¹²¹Judson MacLaury, “A Brief History of Veterans' Services in the Department of Labor,” May 31, 1996.

¹²²38 U.S.C. § 4102A.

¹²³VETS' Congressional Budget Request for FY 1999, p. 10.

CHAPTER II - EMPLOYMENT AND TRAINING

- ◆ Administering JTPA IV-C grants¹²⁴ (totaling \$7.3 million for FY 1998) and, after July 1, 2000, successor veterans' workforce investment programs. The successor programs, established by the Workforce Investment Act of 1998, will serve recently separated and service-connected disabled veterans, veterans with significant barriers to employment, and veterans of a war, campaign, or expedition.¹²⁵ The new law directs DOL/VETS to coordinate veterans' workforce investment programs with related VA programs and activities,¹²⁶ and authorizes not less than \$7.3 million for each FY from 1999 through 2003.¹²⁷
- ◆ Administering homeless veterans' reintegration project grants (\$3 million in FY 1998).¹²⁸
- ◆ Administering employment and reemployment rights programs for uniformed servicemembers.¹²⁹
- ◆ Facilitating TAP workshops for separating servicemembers. DOL/VETS currently authorizes states to allocate up to 5 percent of their veterans' employment state grants for TAP workshop facilitation¹³⁰ and augments this allocation with a national contract for supplemental facilitation (\$1.5 million for FY 1998), as well as funding to purchase and ship TAP materials (approximately \$400,000 annually).
- ◆ Monitoring veterans' preference for federal employment, in cooperation with the United States Office of Personnel Management (OPM).¹³¹ The Veterans Employment Opportunities Act of 1998 requires the Secretary of Labor to investigate complaints of alleged violations of veterans' preference rights to federal employment and attempt to resolve them.¹³² The Commission assumes this responsibility will be delegated to DOL/VETS.
- ◆ Supervising the listing of jobs by federal contractors and the subsequent referrals of qualified veterans.¹³³
- ◆ Administering a \$2 million contract to operate the National Veterans' Training Institute (NVTI), which provides training for federal and state employees involved in the direct delivery of employment and training related services to veterans.¹³⁴

DOL/VETS is organized with national, regional (7), and state-level (52) offices. By statute, the DOL/VETS' Deputy Assistant Secretary,¹³⁵ Regional Administrators (after 1996),¹³⁶ as well as state Directors and Assistant Directors for Veterans' Employment and

¹²⁴29 U.S.C. § 1721 (Job Training Partnership Act, Title IV, Section C).

¹²⁵Public Law 105-220, Sec. 168(a)(1) .

¹²⁶Public Law 105-220, Sec. 168(b)(2) .

¹²⁷Public Law 105-220Sec. 174(a) .

¹²⁸42 U.S.C. § 11448 (Stewart B. McKinney Act as amended by the 105th Congress).

¹²⁹38 U.S.C. Chapter 43.

¹³⁰10 U.S.C. § 1144.

¹³¹38 U.S.C. § 4103(c)(13).

¹³²5 U.S.C. § 3330a(b) and (c).

¹³³38 U.S.C. § 4103(c)(14).

¹³⁴38 U.S.C. § 4109.

¹³⁵38 U.S.C. § 4102A(a)(2).

¹³⁶38 U.S.C. § 4102A(e)(1).

Training (DVETs and ADVETs),¹³⁷ all must be veterans. In addition, DVET and ADVET positions have a 2 year state residency requirement.¹³⁸ Congress should immediately rescind that residency requirement.

DOL/VETS' operating budget for FY 1998 is \$22.8 million, supporting 254 FTEE.¹³⁹ Funding for DOL/VETS is derived from the Employment Security Administration account in the Unemployment Trust Fund.¹⁴⁰

VA also provides benefits and services for the readjustment of military personnel to civilian life. Among those benefits is the VA vocational rehabilitation program for veterans with service-connected disabilities.¹⁴¹ In 1980, Congress made it clear that the purpose of this program is to provide eligible veterans with the services and assistance necessary for them to obtain and maintain suitable employment.¹⁴²

VA provides one-on-one services through its 57 regional offices, with vocational rehabilitation and counseling services also offered at 93 additional locations, plus itinerant services through the use of VA staff and extensive contractual staff.¹⁴³ In FY 1997, VA spent \$45 million to administer \$424.6 million in vocational rehabilitation benefits. VA's VR&C Service had 709 FTEE in 1997.¹⁴⁴

The effectiveness of DOL/VETS' relationship with VA's VR&C Service has varied significantly from state to state for a long time. In 1984, GAO reported mixed views about the effectiveness of DVOP specialists,¹⁴⁵ state employees hired from grants administered by DOL/VETS. In six of the eight VA regions reviewed by GAO, VR&C officials said that DVOP specialists were generally ineffective in developing suitable jobs for rehabilitated veterans, that they lacked the skills and training necessary to be effective employment specialists. In the two other VA regions reviewed, however, VR&C officials told GAO that DVOP specialists were helpful in providing employment assistance to rehabilitated veterans.

In 1992, GAO found that VA's relationship with DOL had produced only limited job search assistance¹⁴⁶ and, as in its 1984 report, that the coordination and relationships between VA and DOL differed significantly from state to state.¹⁴⁷ GAO recommended that an effective working relationship be established between VA and DOL to provide job placement services to disabled veterans.¹⁴⁸

¹³⁷38 U.S.C. § 4103(b)(1).

¹³⁸Ibid.

¹³⁹VETS', p. 10.

¹⁴⁰Department of Labor Appropriations Act of 1997.

¹⁴¹38 U.S.C. Chapter 31.

¹⁴²38 U.S.C. § 3100.

¹⁴³Jeffrey T. Goetz, Acting Director, Vocational Rehabilitation and Counseling Service, Testimony before the Commission, June 23, 1997, pp. 243-244.

¹⁴⁴Vocational Rehabilitation and Counseling briefing materials for Commission hearing, June 23, 1997.

¹⁴⁵GAO Report: *VA Can Provide More Employment Assistance To Veterans Who Complete Its Vocational Rehabilitation Program*, GAO/HRD-84-39, May 23, 1984, Appendix I, pp. 7-8.

¹⁴⁶GAO, *Better VA Management Needed to Help Disabled Veterans Find Jobs*, GAO/HRD-92-100, September 1992, pp. 13.

¹⁴⁷Ibid., p. 18.

¹⁴⁸Ibid., pp. 19-20.

DOL/VETS and VA have a Memorandum of Understanding (MOU) committing them to active cooperation and coordination in the operation of their complementary programs.¹⁴⁹ However, officials from both DOL/VETS and the VR&C Service told the Commission that local coordination between veterans' employment specialists and VR&C staff still is not universally effective, but dependent on local personalities.¹⁵⁰

Employers and veterans appear to be somewhat confused regarding the role of VA in providing employment assistance. In The Gallup Organization's "National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military", when respondents were asked where they would go if they wanted to hire a veteran, the most frequent answer (49 percent) was "the VA."¹⁵¹ In practice, many people associate veterans' employment programs with the VA and mistakenly contact the VA for employment assistance.

Analysis

The Commission makes separate recommendations in this chapter for reforming the operations of both the DOL and VA veterans' employment assistance programs. Those program recommendations, which are independent of this organizational recommendation, reflect the Commission's dissatisfaction with program operations and outcomes. The Commission is especially concerned with the low percentage of vocational rehabilitation program participants being placed in suitable employment¹⁵² and the low percentage of veterans registering for jobs at state employment service offices who are placed through the assistance of DOL-funded employment specialists.¹⁵³

The Commission also has serious concerns about the effectiveness and efficiency of program administration and oversight at DOL/VETS. DOL/VETS' leadership, however, says that improvements will occur and has prepared a *Strategic Plan for Fiscal Year 1997-2002*. The Commission has reservations about whether DOL/VETS, through its plan, will be able to effect significant changes in the employment services it administers and oversees. The plan does not address the precipitous drop in state-grant program performance from PY 1996 to 1997.¹⁵⁴ On the other hand, as a considered alternative, the Commission has no assurance that transfer of administrative responsibility and funding for veterans' employment and training programs from DOL/VETS' to VA would result in the desired improvements.

Accordingly, the Commission believes that interim steps should be taken so that specific program goals and outcome measures are agreed upon jointly by Congress and DOL, after which a reasonable time must be allowed for DOL/VETS to meet those goals. At the outset,

¹⁴⁹DOL, Veterans' Program Letter Number 8-95, September 1, 1995.

¹⁵⁰Commission on Servicemembers and Veterans Transition Assistance, Meeting Summary, Veterans Employment and Training Service and Vocational Rehabilitation and Counseling, November 19, 1997.

¹⁵¹The Gallup Organization, National Survey of Employers Concerning the Hiring and Job Performance of Veterans of the United States Military, December 4, 1998, p. 21.

¹⁵²GAO, *Vocational Rehabilitation: VA Continues to Place Few Disabled Veterans in Jobs*, GAO/HEHS-96-155, September 1996, p.2.

¹⁵³GAO, *Veterans Employment and Training Services Provided by Labor Department Programs*, GAO/HEHS-98-7, October 1997, pp. 17-20 and 56-58.

¹⁵⁴DOL/VETS, Annual Report to Congress 1997.

an independent auditor, such as GAO, must establish a baseline of agency performance for assessing progress. After a reasonable time—the Commission suggests 24 months—a follow-up, independent audit of agency performance should be made to determine the degree of progress. In conjunction with the follow-up audit, the independent auditor should also assess the feasibility and desirability of consolidating into a single organization the administration of employment and training programs for veterans at DOL/VETS and VR&C.

If adequate progress is not made by DOL/VETS towards the agreed-upon goals within the designated reasonable time, and the follow-up assessment determines that consolidation would be feasible and desirable, Congress should consolidate DOL/VETS and the VA's VR&C Service.

Such a consolidation could concentrate limited federal resources in a more efficient and effective manner and allow veterans, particularly service-connected disabled veterans, to receive a continuum of readjustment assistance from a single provider. Program monitoring and coordination at the local level might be more effective under a single-agency program manager, especially if those services were housed in the same federal department that has overall responsibility for veterans' employment.

Consolidating veterans' employment assistance state-grant programs with VR&C programs would provide employers and veterans with one department for nearly all veterans' employment services. The Commission finds that divided responsibility for employment assistance of disabled veterans leaves neither DOL nor VA fully and completely accountable because neither has ultimate control over program success or failure. The Commission is concerned that after thousands of dollars of VA benefits and services are spent helping prepare service-connected disabled veterans to assume a productive position in the workplace, no effective mechanism for job placement exists within VA. A disabled veteran's transition from the VA vocational rehabilitation program to DOL is often not smooth and some newly job-ready veterans flounder or fall through the cracks when passed from one department to another.¹⁵⁵ The Commission believes that centralizing these veterans' services would eliminate incomplete accountability for employment assistance of disabled veterans.

Veterans and employers would benefit from an increased marketing emphasis that would result from a reengineering of positions in a consolidated activity. Staff would be able to supplement a national marketing program by developing and administering an aggressive local campaign to employers and the community.

Service delivery to veterans could be improved by redirecting resources from management overhead positions to frontline staff positions without personnel requirements, such as veterans' status, state residency, and functions prescribed by law.

By statute, a DVET or ADVET, at the time of appointment, must be a veteran who has been a bona fide resident of the state for at least 2 years.¹⁵⁶ The exception is that if, in appointing a DVET or ADVET for any state, the Secretary of Labor determines that there is no qualified veteran available who meets the residency requirement, the Secretary may appoint any qualified veteran.¹⁵⁷ The Commission notes that this exception has never been invoked.

¹⁵⁵. Drach, "Now's the Time to Move VETS," *DAV Magazine*, September 1989, pp. 2-3.

¹⁵⁶. 38 U.S.C. § 4103(b)(1)(A).

¹⁵⁷. 38 U.S.C. § 4103(b)(1)(B).

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The residency requirement blocks upward mobility for qualified professional staff. An ADVET in one state cannot be promoted into a DVET position in another state. If a DVET position becomes vacant in a state without an ADVET, that vacancy must be filled with someone outside the agency, a person less knowledgeable than agency personnel about agency programs.

The residency requirement precludes reassignment as a corrective action option for poorly performing DVETs. In 33 states without an ADVET position to which a poorly performing DVET can be downgraded, DOL/VETS' management is left without adequate corrective action tools for effective oversight of policy implementation and program performance.

Combining the Advisory Committee on Veterans' Employment and Training¹⁵⁸ with the Veterans' Advisory Committee on Rehabilitation¹⁵⁹ would be a logical consequence of consolidating DOL's responsibilities for veterans' employment and training services with VA's responsibilities for vocational rehabilitation and counseling.

No benefit, however, would be gained by transferring the administrative responsibility for the reemployment rights program to VA. In fact, a transfer of all VETS' staff to VA would adversely affect the ability of OFCCP to enforce the statutory prohibition of employment discrimination against veterans of the Vietnam era and special disabled veterans.¹⁶⁰ OFCCP now works closely with DOL/VETS in administering that enforcement responsibility. If responsibility and funding for the uniformed servicemembers' employment and reemployment rights program and veterans' preference job advancement opportunities within the Federal Government were to be transferred to OFCCP, together with up to 50 authorized positions, all veterans' employment rights programs enforced by DOL might be strengthened. As enforcement programs, veterans' reemployment and preference rights are different from DOL/VETS' benefits programs. Because OFCCP is an enforcement agency within DOL already administering a veterans' employment program, there would be a compatibility of program focus. Additionally, the Commission notes that DOL investigators and attorneys have acquired considerable expertise in administering this complex law.

FINDINGS

- ◆ The Commission found through discussions held with servicemembers at various installations and recently discharged veterans, that employment assistance is the most valuable service the Nation can provide to personnel transitioning from active duty to the civilian workforce.
- ◆ DOL/VETS' *Strategic Plan for Fiscal Year 1997-2002* proposes only small, incremental improvements to existing programs with no acknowledgement of current problems or proposals to improve services through innovative administration.
- ◆ Job-seeking veterans are not now well served by programs established to help them find employment:

¹⁵⁸. 38 U.S.C. § 4110.

¹⁵⁹. 38 U.S.C. § 3121.

¹⁶⁰. 38 U.S.C. § 4212.

- ❖ Only one-fourth of veterans registering for jobs at state ES offices find employment through the assistance of those offices. Most veterans served by an ES veterans' employment representative do not receive training in job search techniques or career counseling and many do not receive information about available jobs. Veterans' employment specialists spend most of their time on job-ready veterans while only 1 percent of all veterans, and fewer than 4 percent of disabled veterans who come to the ES receive case management services.
- ❖ VA's VR&C program is not achieving its statutory purpose of assisting service-connected disabled veterans to become employable and to obtain and maintain suitable employment.
- ◆ MOUs between the DOL/VETS and VA have not provided job-seeking veterans with the smooth transfer between agency services they need to become job ready and find suitable employment. Veterans might be served better if most programs providing them with direct services were consolidated into one organization. Divided responsibility for veterans works against a comprehensive veterans' readjustment program and leaves neither VA nor DOL fully accountable for outcomes. A single organization could eliminate duplication in effort and redundant supervisory overhead. A single organization also could eliminate gaps through which veterans can fall.
- ◆ Compliance with and enforcement of employment protections are functionally different than direct employment services. Compliance and enforcement functions are best placed in DOL, which is experienced in their administration.
- ◆ The residency requirement is particularly restrictive and makes effective administration and program monitoring difficult.

RECOMMENDATIONS

- ◆ That Congress direct GAO to immediately conduct an organizational and programmatic audit of DOL/VETS to establish a basis for future measurement of the agency's effectiveness in supporting employment services for veterans through DOL programs.
- ◆ That Congress and DOL, within 90 days of enactment, jointly agree on specific desired improvements and appropriate outcome measures.
- ◆ That Congress direct GAO to conduct a follow-up audit of DOL/VETS 24 months after the desired improvements and outcome measures have been agreed upon to determine—
 - ❖ The degree of DOL/VETS' success in accomplishing the objectives.
 - ❖ The feasibility and desirability of consolidating into a single organizational entity the administration of veterans' employment and training programs now divided between DOL/VETS and VA's VR&C.
- ◆ If the GAO follow-up audit finds that DOL has made inadequate progress towards identified goals as measured by agreed-upon outcomes and that a consolidation of program administration would be feasible and desirable, that Congress enact

legislation that would consolidate the direct employment and training programs now administered by DOL/VETS and the VA's VR&C Service as a separate organization within VBA for employment and training.

- ◆ Congress should immediately rescind the residency requirement for DOL/VETS' DVETs and ADVETs.

BUDGET IMPLICATIONS - ISSUE II.H

None

Underlying Assumptions

- ◆ Implementation can be accomplished with existing staff and budget.
- ◆ Successful implementation will result in enhanced customer service and improved program outcomes.

ISSUE II.I - IMPROVE EFFECTIVENESS OF THE VA VOCATIONAL REHABILITATION PROGRAM

How can the placement of service-connected disabled veterans in suitable employment through VA's VR&C Program be improved?

DISCUSSION

Background

VA's VR&C Program is intended to provide all services and assistance necessary for service-connected disabled veterans to prepare for, obtain, and maintain suitable employment.¹⁶¹ Numerous reviews and audits by GAO, VA's Inspector General (IG), as well as internal VA reviews, have found that VA has failed to achieve these goals. Findings and recommendations from the numerous program reviews include –

- ◆ Lack of strong central management and accountability for program results (GAO, 1980; IG Audit, 1988; Commission Roundtable, 1997).
- ◆ Lack of comprehensive rehabilitative services (GAO, 1980; Commission Roundtable, 1998).
- ◆ Lack of adequate program data (GAO, 1976, 1980, 1992, 1996; IG Audit 1988; VR&C Design Team Report 1996; Commission Roundtable, 1998).
- ◆ The need to establish results-oriented goals and objectives for the program (GAO, 1980, 1997).

¹⁶¹. 38 U.S.C., § 3100.

- ◆ The need to implement at the regional office level the case -manager concept whereby one person is assigned the responsibility and held accountable for a veteran's case from point of application through employment placement (GAO, 1980; Veterans' Advisory Committee on Rehabilitation, 1994, 1995; VR&C Design Team Report, 1996; Congressional Testimony, 1998).
- ◆ Failure by VA Regional Offices to offer rehabilitated veterans all the employment services to which they are entitled under VA procedures (GAO, 1984; IG Audit 1988).
- ◆ VA focus on sending veterans to training, not employment (GAO, 1984, 1992, 1996; VA Study, 1993; VR&C Design Team Report, 1996, Commission Roundtable 1997; Commission site visit, – Denver 1997).
- ◆ Need for VA to emphasize serving veterans with serious employment handicaps (GAO, 1992; PVA meeting with Commissioners Wincup and Drach, 1997).
- ◆ Ineffective relationship between VA and ineffective DOL (GAO, 1984, GAO, 1992).
- ◆ Low success rate by program (IG Audit, 1988; GAO, 1996; VR&C Design Team Report 1996).
- ◆ High attrition rate of program participants (GAO 1992; Design Team Report, 1996).

In August 1996, a VR&C Design Team of 17 VA employees, with the aid of a steering committee and contractor expertise, submitted a report through the former Director of VR&C Service to the former Undersecretary for Benefits. The report contained 15 recommendations that, in the team's opinion, if implemented would significantly improve the VR&C program. According to the Design Team's Report (DTR), their recommendations fall into four broad categories:

- ◆ Changing the culture of VR&C (to become more employment oriented).
- ◆ Implementing a strong marketing program.
- ◆ Streamlining business operations.
- ◆ Automating business practices.

By September 1998, the report had not yet been released to VR&C program stakeholders and Design Team members were unaware of its status. According to VA, elements of the report have been incorporated into its strategic planning business case.

Analysis

Ineffective Management

As noted above, VA's VR&C Program has attracted numerous, very critical studies in the past 18 years. Against this background the Commissioners were disappointed to learn from current program managers that their business case, a strategic planning document for program improvement, was scheduled for release in early 1998. It was released in August 1998.

Despite the studies, VA has achieved only limited progress toward implementing effective solutions. As the vast majority of the well-documented problems are managerial in nature, rather than policy related, it appears that ineffective management at the program level was not the only factor responsible. Organizational neglect also played a part in allowing these critical

problems to persist for so long. Participants from both of the Commission Roundtables on Vocational Rehabilitation referred to the lack of organizational support for the program, citing VR&C's difficulty in competing for personnel, equipment, and other resources.

In a 1998 oversight hearing, GAO stated "VBA now has an opportunity to implement recommendations it has failed to act on in the past. However, the concerns addressed in this statement are long-standing, and sustained efforts will be needed to improve program effectiveness."¹⁶²

Necessary management actions include focusing on employment; improving marketing materials; fully implementing a service delivery system in which one rehabilitation professional is held accountable for a case from beginning to end. In addition to providing staff development training in current vocational assessment techniques, management actions include transferable work skills analysis and work readiness assessment tools; improving partnerships with rehabilitation professional organizations; and implementing a national resource allocation model. Unfortunately for disabled veterans, VA has failed to successfully take action on these issues.

Failure to Focus on Employment

The vocational rehabilitation program has not focused on its mandate to place disabled veterans in suitable employment. The program continues to concentrate its efforts on sending veterans to training. According to VR&C 1997 management reports, approximately 87 percent of program participants are pursuing college-level training (including associate degrees). An attrition study completed by the VR&C Design Team in 1996 revealed that large numbers of participants dropped out of the program to get a job.¹⁶³

The vocational rehabilitation program has not focused on its mandate to place disabled veterans in suitable employment.

The GAO reported in 1984, 1992, and again in 1996 that VA had not properly focused the program on employment. Other sources, including the IG in 1988 and the VR&C Design Team in 1996, supported this finding. GAO officials stated that "despite a legislative mandate enacted almost two decades ago that required VBA to help program participants obtain suitable jobs and our prior reports documenting VBA's limited success, we found that the vocational rehabilitation program has not emphasized employment services. As a result, the program has rehabilitated few disabled veterans."

Before Public Law 96-466 was enacted in 1980, the entire focus of the program was completion of training. Employment was not an area for which staff was held accountable. Consequently, VA has a very strong and long-established mechanism to send veterans to institutions of higher learning, apparently considered the ultimate training institution in the VR&C culture. However, VA does not have similar mechanisms in place to enroll veterans easily in on-the-job training arrangements or in job-seeking skills training, two areas in which placement research has shown a strong correlation with successful employment.¹⁶⁴

¹⁶² GAO, *Vocational Rehabilitation, Opportunities to Improve Effectiveness*, GAO/T-HEHS-98-87, February 4, 1998, p.7.

¹⁶³ VR&C Design Team Report, Book II, 1996, Environmental Scan, p. 9.

Controversial Success Rate

The Comptroller General and the VA have long debated the success rate of the program. The GAO reported in 1992 and in 1996 that fewer than 10 percent of veterans found eligible for vocational rehabilitation services were rehabilitated. However, VA reported its success rate as closer to 32 percent. The point in the application/rehabilitation process at which VA begins to be held accountable for outcomes can explain the difference in the two rates. What both VA and GAO can agree on is that the program needs to improve its employment services, strategies, and expertise. VA has initiated steps to make improvements.

The program has achieved an increase in the number of veterans rehabilitated each year since 1991. However, the number of successful outcomes (2,875 disabled veterans) was extremely low in 1991. Even with an increase to 8,693 rehabilitated veterans in 1997, few stakeholders believe the program is effective in placing disabled veterans in suitable employment. Further, VA data on the increase in the number of rehabilitation cases does not control for the broader definition of successful rehabilitation put into effect in 1993. This broader definition includes veterans who obtained employment in an occupation closely related to their original goal.

The Commission finds most disappointing VA's statement about outcome success rate as stated in its 1999 budget submission to Congress. VA states that its outcome success rate, as measured by suitable employment or achievement of independent living, will increase from a 52-percent outcome success rate in FY 1997 to 57 percent in FY 2003. This represents an increase of 1 percent per year, a goal the Commission finds unambitious and lacking in the sense of urgency that the current situation requires. In addition, the Commission believes that suitable employment or (for certain very seriously disabled veterans) independent living are the only outcome success rates that are meaningful. Finally, the Commission questions whether the baseline of a 52-percent success rate is overstated because interim steps in the rehabilitation process (e.g., cessation of drinking for alcoholics) are included in the broad definition of success.

FINDINGS

- ◆ Suitable employment is the definitive marker of a successful transition from military service to civilian life. No Americans have a higher call on the Nation's resources for the assistance necessary to achieve this goal than those veterans whose service-connected disabilities have created barriers to suitable employment.
- ◆ VA's VR&C program is not achieving its statutory purpose of assisting service-connected disabled veterans to become employable and to obtain and maintain suitable employment.
- ◆ VA management has failed to take actions such as –
 - ❖ Focusing on employment.
 - ❖ Improving marketing materials.

¹⁶⁴. David Vandergoot and Victoria Wenzel, *A Research Based Innovative Placement Program, American Rehabilitation*, Autumn 1990, pp. 2-7.

- ❖ Fully implementing a service delivery system in which one rehabilitation professional is held accountable for a case from beginning to end.
- ❖ Providing staff development training in current vocational assessment techniques, to include transferable work skills analysis and work readiness assessment tools.
- ❖ Improving partnerships with rehabilitation professional organizations.
- ❖ Implementing a national resource allocation model.
- ◆ The many persistent VR&C program problems are related not to policy, but rather to a history of ineffective management and leadership support.
- ◆ Congressional intent is clear and statutory policy changes are not needed. Aggressive leadership within VA and VBA could resolve the vast majority of VR&C's problems. The Commission recognizes the efforts of the current administration. However, the Commission urges aggressive, decisive, and timely actions to assure Congressional mandates are met.

RECOMMENDATIONS

- ◆ That the Congressional Committees on Veterans' Affairs give the Secretary of Veterans Affairs a 2-year probationary period for the Secretary to demonstrate significant improvements in the VR&C program. Failure to achieve substantial improvement in problem areas would result in Committee action on legislation to allow the delivery of vocational rehabilitation services to be open for full competition by outside entities.
- ◆ The Committees should give program officials a period of 6 months to establish baseline data and develop strategic plans for improvement. The remaining 18 months could be used to develop pilot tests for solutions to long-standing problems, modifying these solutions as necessary, and exporting these solutions for use on a national level.
- ◆ The Committees should expect the Secretary to report demonstrable improvement in the following areas:
 - ❖ The overall number of program participants who obtain and maintain suitable employment.
 - ❖ The number of program participants with serious employment handicaps who obtain and maintain suitable employment.
 - ❖ The number of veterans for whom an employment goal is not feasible who achieve independent living.
 - ❖ The use of on-the-job training opportunities.
 - ❖ Customer satisfaction with the evaluation and planning and employment services areas of the program.
 - ❖ The sense of awareness and purpose of the VR&C program throughout the VA organization, with particular emphasis on the Veterans Health Administration (VHA), and organizations external to VA who have interest in or influence over the program.

- ❖ The skill level of program service delivery staff in evaluation and planning (with particular emphasis on transferable work skills analysis) and employment services.
- ❖ The overall attrition rate of program participants who drop out of the program to get a job (program participants for this measure should be defined as those service-connected disabled veterans who have signed an individual written rehabilitation plan).
- ❖ Adequate information technology support for the program so that the program can easily provide, at both the local and corporate levels, credible program data. This data to include case-cost and staff-time measurements (by disability percentage rating), return-on-investment data, customer satisfaction, and all other data necessary for program managers to monitor and evaluate the program's effectiveness.

BUDGET IMPLICATIONS - ISSUE II.I

None

Underlying Assumptions

- ◆ Recommendation does not contemplate changes in funding.

ISSUE II.J - ELIMINATE DISINCENTIVES AND RESTRICTIONS FOR RETIRED MEMBERS OF THE UNIFORMED SERVICES TO OBTAIN FEDERAL CIVILIAN EMPLOYMENT

What economic disincentives and employment restrictions hamper retired members of the uniformed services in obtaining federal employment, resulting in lost taxpayer investments?

DISCUSSION

Background

The Dual Compensation Act is the most arduous of the disincentives. Current law¹⁶⁵ reduces the retirement pay of a retired Regular officer while that officer receives a federal civil service salary. The reduction in retired pay, however, does not apply to –

- ◆ Retired Regular officers whose retirement is based on disability.
- ◆ Retired Regular officers employed temporarily, on any other part-time or intermittent basis, for the first 30-day period the retiree receives a salary.

¹⁶⁵ 5 U.S.C. § 5532.

CHAPTER II - EMPLOYMENT AND TRAINING

- ◆ Retired Reserve officers and retired enlisted members, unless their combined civilian salary and military retired pay is equal to or greater than Executive Level V pay (\$110,700).
- ◆ The law also provides for exceptions approved on a case-by-case basis –
 - ❖ In exceptional and unusual circumstances. These circumstances are specifically limited to difficulties in recruiting/retaining a qualified employee for a specific job and to emergency conditions posing an immediate and direct threat to life or property.
 - ❖ For convenience of the government. The Commission notes that in mid-April 1998, the government announced it would allow selected computer experts to return to government service and collect their full federal salary plus their civil service annuities or military retirement pay.

The Commission believes that the United States Code contains a number of other economic disincentives and employment restrictions for retired members of the uniformed services seeking federal employment. Among them are civil service leave accrual for retired members of the uniformed services, a 180-day restriction on DoD employment of military retirees, and maximum age limitations with respect to law enforcement and firefighter occupations.

Retired members of the uniformed services who are federal employees are entitled to credit active military service for leave accrual only under the following conditions:¹⁶⁶

- ◆ Retirement was based on disability resulting from injury or disease received in line of duty as a direct result of armed conflict or caused by an instrumentality of war and incurred in line of duty during a period of war.
- ◆ Service was performed in the Armed Forces during a period of war, or in a campaign or expedition for which a campaign badge has been authorized.
- ◆ Retiree, on November 30, 1964, was employed in a position to which title 5 of the United States Code applies and thereafter continued to be so employed without a break in service of more than 30 days.

Retired members of the uniformed services may be employed as DoD civil service employees within 180 days immediately after retirement only if the appropriate Service Secretary authorizes the employment or a state of national emergency exists. This 180-day restriction does not apply to civil service occupations with a critical shortage of employees.¹⁶⁷

Additionally, the Federal Government has established a maximum age limit, generally 37 years of age, for an original appointment to a law enforcement/firefighter position.¹⁶⁸ The apparent logic for the maximum hiring-age limitation is to ensure that only alert and physically vigorous individuals are employed in positions whose duties are rigorous and stressful. However, persons hired when less than 37 years of age are employed in these jobs for many years, even decades, after passing that age. Obviously, there are better measures of mental and physical capabilities than age.

¹⁶⁶. 5 U.S.C. § 6303.

¹⁶⁷. 5 U.S.C. § 3326.

¹⁶⁸. 5 U.S.C. § 3307 and § 8401.

Analysis

Computer experts are not the only Regular officers with skills and experience that could be put to good use in public service. The Commission believes the retirement pay reduction requirement imposed by the Dual Compensation Act creates a disincentive to accepting federal employment and thereby deprives the Federal Government of productive employees with valuable skills and strong work ethics. As far back as 1977, a House Subcommittee concluded that federal agency benefit when they hire retired officers with professional skills that are in short supply and difficult to find in the civilian sector.¹⁶⁹

Reform of this requirement would allow the Federal Government to attract more qualified retired Regular officers. Additionally, it would assist retired Regular officers in their transition to civilian life by expanding the opportunities available to them to put their talents and abilities to work.

A complete analysis of the financial implications of the retired pay reduction requirement should be made that would take into account –

- ◆ Recovery by the public of the full value of the sunk costs of educating and training Regular officers. The public receives no further return on this investment from officers who retire after 20 to 30 years of service and decline to work for the government because of current dual compensation restrictions.
- ◆ The opportunity costs of recruiting, relocating, and training less qualified candidates for civil service positions that could be readily filled with the retired Regular officers.
- ◆ The hidden costs to the government associated with outsourcing government work to contractors who have employed retired Regular officers. In many cases, the government still pays their salaries plus the contractor's profit margin to get the same work done. Consequently, many retired Regular officers continue to work for the government, but indirectly, and the government still pays for their services.

The Commission rejects the logic that allowing retired Regular officers to receive their retired pay and a civil service salary at the same time would represent dual compensation for that period of time. That logic is based on the theory that, because retired officers are subject to recall to active duty, retired and retainer pay represents remuneration for the current services rather than deferred remuneration for prior services. Although it may be logical to require retired officers to give up their retired pay (and civil service salaries) if they are actually recalled to active duty, that does not mean that retired officers should be financially penalized for a contingency that might happen. If anything, the possibility of a recall to active duty ought to justify additional remuneration rather than a financial penalty.

The Commission believes the maximum age limitation imposed on law enforcement/ firefighter positions to maintain a young workforce may be flawed and should be reviewed. Recently retired or separated members of the uniformed services who gained extensive law enforcement/firefighter experience while serving their country could offer a wealth of knowledge and mature judgement. An individual's experience, skill, knowledge, and physical fitness to discharge law enforcement and firefighter duties should outweigh age limitations.

¹⁶⁹. Government Printing Office, Dual Compensation Paid to Retired Uniformed Services Personnel in Federal Civilian Positions, Subcommittee on Investigations of the Committee on Post Office & Civil Service, House of Representatives, 95th Congress, 2nd Session, April 3, 1978, p. 40.

FINDINGS

- ◆ Military retired pay is currently earned compensation similar to the outside salaries of military reservists who earn income from interests and sources other than their current federal employment. Federal civil service salaries are fully earned at the time they are paid. Because both salaries are fully and separately earned when paid, there is no reason to offset one against the other.
- ◆ Military personnel have developed valuable knowledge, skills, discipline, and strong work ethics during their military careers. The salary offset requirement not only creates a disincentive for retired Regular officers to accept federal employment, but also deprives the federal civil service of talented and knowledgeable employees.
- ◆ The value of military retired pay for servicemembers first entering active duty after 1986 has been substantially reduced by changes in the way retired pay amounts are calculated.
- ◆ Military personnel have adapted to and been exposed to hazardous and stressful situations demanding rigorous physical fitness standards and mental alertness to discharge their assigned duties. The maximum age limitation does not consider this factor and unnecessarily restricts retired members of the uniformed services from accepting federal employment. This restriction deprives the Federal Government of experienced employees who could exercise mature judgement and maintain composure under pressure.

RECOMMENDATIONS

That Congress enact legislation to –

- ◆ Allow payment of federal civil service salaries to retired members of the uniformed services without reduction in retired or retainer pay. The legislation would apply to retired Regular officers who first become eligible for retired pay in 2000 and later.
- ◆ Eliminate the restriction that prevents DoD from hiring retired servicemembers prior to 180 days of separation.
- ◆ Deem August 5, 1964 (February 28, 1961, for members who served “in country” before August 5, 1964), through May 7, 1975, as a period of war for the purpose of civil service leave accrual; and
- ◆ Amend maximum age limitations with respect to federal law enforcement and firefighter occupations, by amending current law to authorize a “computed age” for veterans and retired members of the uniformed services that would credit prior military training and experience.

That Congress should also hold hearings to consider –

- ◆ Modifying other federal employment disincentives or restrictions.
- ◆ Creating new incentives to encourage federal employment.

BUDGET IMPLICATIONS - ISSUE II.J

1st-year costs..... \$ 2 million

5-year cumulative costs.....\$30 million

Underlying Assumptions¹⁷⁰

- ◆ Five-year average (1993-1997), 249 retired officers entered federal employment.
- ◆ Five-year average (1993-1997), 49 retired officers left federal employment.
- ◆ Five-year average (1993-1997), \$717 individual monthly offset.
- ◆ Outyears assume 25 percent inflation.

¹⁷⁰. Defense Manpower Data Center, Office of the Actuary Report, *Number of Military Retirees Receiving Pay From DoD Who Are Also Receiving Dual Compensation Offset*, July 28, 1998.

CHAPTER III - HEALTHCARE

OVERVIEW

Access to high quality healthcare is a concern of all Americans. The Commissioners were impressed with the high quality care and the vast spectrum of healthcare services provided to servicemembers and veterans by both DoD and VA. However, the Commission sought to correct problems in access to that care by transitioning servicemembers and their families and by Medicare eligible system beneficiaries.

Healthcare coverage during the transition from military service to civilian life is more than an important transition benefit; it has been a legal requirement since the enactment of the Consolidated Omnibus Budget Reconciliation Act (COBRA) in 1985. In compliance with the law, DoD offers servicemembers the Comprehensive Health Care Benefit Program (CHCBP). Unfortunately, the program is so expensive that only 815 of approximately 250,000 eligible servicemembers are expected to purchase coverage this year. The Commission believes that uncovered medical expenses can profoundly and adversely change the course of a new veteran's life. For that reason, it is important to go beyond the minimum requirements of the law and offer transitioning servicemembers affordable coverage. The Commission proposes reforms to make the CHCBP program more affordable to separating servicemembers.

The Commission is concerned that military retirees who are frozen out of the DoD healthcare system when they become eligible for Medicare at age 65 do not have access to healthcare they earned through their military careers. Commission recommendations, if enacted, will improve access to care for Medicare-eligible military retirees. While servicemembers are on active duty, they have healthcare coverage through DoD. After they leave active duty, they become eligible for healthcare services from VA. Although the DoD and VA healthcare systems serve the same patients in succession, their operations are conducted almost entirely without regard to each other.

The DoD and VA healthcare systems are more extensive than many Americans realize. DoD cares for 6.2 million beneficiaries with 144,000 healthcare personnel and operates 115 hospitals and 471 ambulatory clinics. The DoD healthcare budget is \$15.7 billion. VA treats 3.1 million veterans a year with 184,800 personnel and operates 173 hospitals, approximately 600 ambulatory care and community-based outpatient clinics, 131 nursing homes, and 40 domiciliaries. The VA healthcare budget is \$17.9 billion.

Both healthcare systems face the challenge of adapting to changing healthcare practices, an evolving patient population, infrastructure built for another era, and increasing healthcare costs in a time of severe budget pressure. Both systems are unique and irreplaceable national resources with separate missions, each critical to the Nation and its citizens.

The Commission believes that neither healthcare system can sustain business as usual in the current budget climate.

The Commission believes that neither system can sustain business as usual in the current budget climate. Although the systems have made a significant effort to establish a cooperative relationship with each other, they must move towards an even closer partnership if they are to continue to succeed.

A true partnership between the Departments would maximize the return on the human and physical resources of both Departments and increase the number of beneficiaries they treat. Such a partnership is necessary if together they are to provide their common beneficiaries with access to a full continuum of healthcare services.

Effective leadership of a partnership and effective resource allocation requires a mutual understanding of common data concerning operations and resources. The Commission makes recommendations that would provide the leadership of the two Departments with compatible cost-accounting data.

Information has become the lifeblood of large organizations. An effective partnership must have compatible and comparable information from all of its components. The Commission makes recommendations to ensure that the leadership of the two partners has the common information technology system they will need to realize the benefits of their partnership. The Commission believes that a common information technology system will offer servicemembers and veterans better healthcare and taxpayers the benefits of 10-year savings as great as \$120 million to \$200 million.

With a combined operating budget of more than \$32 billion and a combined medical procurement budget of almost \$4 billion, a partnership between the DoD and VA healthcare acquisition systems would position them to realize the advantages that could be derived from concentrated large-scale purchasing. Large managed-care providers in the private sector use formularies, product standardization, and large committed-volume contracts to minimize their costs on a per-item basis. The Commission makes recommendations to assist the Departments in realizing those benefits.

VA acquisition officials are convinced that projected savings of at least 10 percent and perhaps as much as 20 percent can be realized from the consolidation of DoD and VA medical/surgical purchasing. To obtain the projected savings of \$370 million to \$740 million, a joint VA/DoD formulary and committed-volume contracts are necessary. The DoD/VA Executive Committee started this process with an initiative to jointly procure 27 therapeutic classes of pharmaceutical items and the potential for a joint formulary.

DoD acquisition officials are leading a national effort to standardize nomenclature for medical/surgical items. Universal product numbers or UPNs would greatly facilitate standardization of medical/surgical products. In addition, application of universal product numbers to medical/surgical supplies would result in procurement savings by encouraging price competition for the purchase of standardized products. DoD (Health Affairs) projects that UPNs would enable DoD alone to save \$50 million to \$100 million annually on its medical/surgical purchases.

The Commission envisions a DoD/VA healthcare partnership offering beneficiaries a seamless transition from one system to the other, providing beneficiaries the highest possible return on the human and physical assets invested in the two systems while at the same time empowering each Department to fulfill its unique core missions.

ISSUE III.A - PROVIDE TRANSITION HEALTHCARE FOR RECENTLY SEPARATED SERVICEMEMBERS AND THEIR FAMILIES

How can the government best provide affordable healthcare coverage for recently separated servicemembers and their families as they make the transition from active duty to civilian life?

DISCUSSION

Background

Servicemembers who are on active duty in the Armed Services and their families are provided healthcare through DoD TRICARE (DoD's managed-care program) at little or no cost. When servicemembers separate from the service, they are no longer eligible for TRICARE except under certain special circumstances. It is the transition period between active-duty military service and subsequent civilian employment that is of primary concern to the Commission.

The Continued Healthcare Benefit Program (CHCBP) is DoD's implementation of the law that requires employers to provide COBRA-like¹⁷¹ continued healthcare coverage for employees (and their families) who are terminated (or die) for reasons other than gross misconduct.¹⁷² The employer must provide the employee with an option to purchase group healthcare coverage for a period of 18 to 36 months at a premium cost to the employee not to exceed 102 percent of the total premium cost (to employer and employee).¹⁷³ Thus, as an employer, DoD has an obligation to provide this healthcare coverage.

CHCBP is premium based with medical benefits that mirror those offered in the basic Civilian Health and Medical Program of the Uniformed Services (CHAMPUS – now called TRICARE Standard) program, and it follows most of the CHAMPUS rules and procedures. However, CHCBP is not a part of the TRICARE program.¹⁷⁴

DoD provides CHCBP, which is essentially a healthcare indemnity insurance plan, for servicemembers who separate voluntarily. Servicemembers who are separated involuntarily (except for misconduct) or separated through incentive programs such as Voluntary Separation Incentive/Special Separation Benefit (VSI/SSB), or force management purposes are provided access to TRICARE (at a lower priority than active-duty servicemembers) for a period of 60 to

¹⁷¹Consolidated Omnibus Budget Reconciliation Act of 1985.

¹⁷²Title X, Public Law 99-272. Coverage is also provided for unremarried former spouses, emancipated children, and children placed for adoption or legal custody.

¹⁷³Ibid.

¹⁷⁴CHCBP Form #7537, 5/1/97.

120 days at no cost. They have an option to purchase CHCBP for up to 18 months.¹⁷⁵ Servicemembers who voluntarily separate from the service and thus do not receive this benefit may perceive some inequity in this policy.

Veterans recently separated from military service who seek healthcare from VA are essentially subject to the same eligibility and priority categories as any other honorably discharged veteran. Families of veterans are not eligible for VA care.

Effective May 1, 1997, the cost to the beneficiary of DoD's CHCBP individual coverage was \$933 per quarter (\$3,732 per year). For family coverage, it was \$1,996 per quarter (\$7,984 per year).¹⁷⁶

The relative increase in the cost of healthcare coverage is much greater for separating servicemembers and their families who purchase CHCBP than for most civilian employees who purchase COBRA coverage, because servicemembers pay no healthcare premiums while on active duty.

Like its private sector counterparts, DoD's CHCBP suffers from adverse selection, with resultant escalation in premiums. It requires large subsidies by DoD. Primarily, only those with significant family medical problems enroll in the program, thus the risk pool is not large enough to cover costs. The forecast number of beneficiaries for FY 1998 is 815, down from 3,583 in FY 1996, out of approximately 250,000 servicemembers who separated that year. The DoD cost per beneficiary for FY 1998 is estimated at \$4,300. DoD paid 49 percent of the cost that exceeded the premiums collected. DoD's subsidy was \$2 million in FY 1995, \$4 million in FY 1996, and \$8 million in FY 1997.

Analysis

There is a trade-off between setting the CHCBP premium beyond the means of some beneficiaries who need it and setting the CHCBP premium so low that it attracts enrollees who have a reasonable employer-provided alternative. If the premium charged by DoD is decreased, DoD's aggregate costs may increase both because the Department covers a larger number of enrollees and pays a higher DoD share of the cost per enrollee.

DoD should ensure that beneficiaries have access to healthcare during the most critical period following transition by providing affordable, continued healthcare coverage to all transitioning servicemembers and their families for a limited period (for example 120 days) following separation. By offering affordable healthcare coverage beyond the initial 120-day period for a total period of up to 18 months, DoD would be in full compliance with COBRA.

Maintaining transitioning servicemembers and their families in the general TRICARE population would minimize premium costs and mitigate the risk of adverse selection.

FINDINGS

- ◆ DoD has an obligation under law, as an employer, to provide transition healthcare coverage for separating servicemembers.

¹⁷⁵Department of the Army, *Preseparation Guide*, Pamphlet 635-4, September 1997, p. 38.

¹⁷⁶News Release No. 97-2, Office of the Assistant Secretary of Defense for Health Affairs, March 28, 1997.

- ◆ DoD's transition healthcare program (CHCBP, specifically) suffers from a history of adverse selection and of unaffordable premiums.
- ◆ The cost of CHCBP premiums has become so high that the vast majority of servicemembers and their families separate with no transition healthcare coverage at all.¹⁷⁷
- ◆ Transitioning servicemembers and their families without healthcare coverage during the critical transition period are at medical and financial risk.¹⁷⁸
- ◆ Because separating servicemembers and their families are already enrolled in DoD's TRICARE healthcare program, it seems logical for DoD to continue their enrollment in TRICARE during the critical transition period.

RECOMMENDATIONS

That the Congress enact legislation requiring DoD to offer continued enrollment in TRICARE (as a second provider to any private insurance) to separating servicemembers and their families (including eligible former unremarried spouses and unremarried emancipated children), keeping enrollees in the general TRICARE population, for a maximum total enrollment period of 18 months, as follows:

- ◆ For a period of 120 days following separation, provide coverage at a premium rate of 10/20 percent (individual/family) of the total cost, with DoD paying the remaining 90/80 percent (individual/family).
- ◆ For an additional 14 months, provide an option to continue enrollment at a premium rate not to exceed 102 percent of the total cost based upon the total TRICARE population.

BUDGET IMPLICATIONS - ISSUE III.A

1st-year costs..... \$ 38 million
5-year cumulative costs..... \$462 million

Underlying Assumptions

- ◆ Annual premium growth of 8.7 percent.
- ◆ Premium for 120 days set at \$405 (single) and \$1,688 (family).
- ◆ Beneficiary share of single premium—10 percent.
- ◆ Beneficiary share of family premium—20 percent.
- ◆ DoD forecast of annual enrollment for single coverage—from 9,100 to 57,400.
- ◆ DoD forecast of annual enrollment for family coverage—from 25,400 to 121,600.
- ◆ Commission annual enrollment assumption starts at low end (9,100 single and 25,400 family) and increases incrementally to the midpoint in year 5 (33,250 single and 73,500 family).

¹⁷⁷News Release No. 97-2, Office of the Assistant Secretary of Defense for Health Affairs, March 28, 1997.

¹⁷⁸Commission Roundtable with Military Service Chiefs, April 9, 1998, Healthcare Advisory Group Report, Annex X, p. X-9.

- ◆ Significant increase in enrollment (FY 1998 CHCBP enrollment = 815) due to significant discount in premiums (current CHCBP premiums = \$933 single, \$1,996 family per quarter).
- ◆ Beneficiaries pay 102 percent of total premiums for additional 14 months enrollment after first 4 months. No cost to DoD.
- ◆ Administrative savings from consolidating CHCBP contract with TRICARE contract offset by costs of contract changes and added administrative costs within TRICARE contract.
- ◆ Increased size of enrollment pool will mitigate DoD's current annual subsidy of approximately \$5 million.

ISSUE III.B - PROVIDE HEALTHCARE FOR MEDICARE-ELIGIBLE BENEFICIARIES

What healthcare coverage is appropriate for Medicare-eligible Service beneficiaries (military retirees and their families)?

DISCUSSION

Background

The 1956 Dependent's Medical Act gave DoD the authority to provide retirees (of any age) healthcare as long as space and resources were available. When DoD received this authority, retirees comprised 9 percent of the eligible beneficiaries. In 1996, retirees and their families exceeded 50 percent of eligible beneficiaries.¹⁷⁹

However, many military retirees believe that they were promised military healthcare, without cost, for life. Medicare coverage after they reach age 65 does not meet their expectations of the benefit they earned for a career of military service.¹⁸⁰

Over the decades, this promise was given an implied legal basis by the recurring assurances of the U.S. Government that lifetime healthcare is an earned benefit for the extraordinary demands, risks, and sacrifices endured during military service. As late as 1993, recruiting brochures, personnel publications, retiree guides, and other official documents printed by the U.S. Government Printing Office continued to promise lifetime healthcare. A 1991 Army recruiting brochure, still in use as late as 1993, stated, "Healthcare is provided to you and your family members while you are in the Army, and for the *rest of your life* if you serve a minimum of 20 years of active federal service to earn your retirement."¹⁸¹

¹⁷⁹GAO Report, Military Retirees Health Care, GAO/HEHS-97-134, June 1997, pp. 4 and 22.

¹⁸⁰Dr. Edward Martin, Acting Assistant of Defense for Health Affairs, Healthcare Advisory Group Report, p. A-9.

¹⁸¹US Government Printing Office, (U.S.G.P.O. 1992 843-711) Army Recruiting Brochure, *Army Benefits*, November 1991.

CHAMPUS was established in 1966, after Medicare was enacted. CHAMPUS was replaced by TRICARE, the current DoD healthcare program. Military retirees and their families are eligible for TRICARE medical coverage with an annual enrollment fee of \$230 for singles and \$460 for families. This coverage includes access to military treatment facilities (MTFs) on a space available basis as well as DoD funded care provided by private sector providers. However, once military retirees or their family members become eligible for Medicare (usually at age 65), they become ineligible for TRICARE medical coverage except for direct care in MTFs on a space-available basis.

In contrast, retired federal civilian employees have the option to purchase healthcare coverage from one of the numerous private sector fee-for-service insurance plans or health management organizations that are included in the Federal Employees Healthcare Benefits Plan (FEHBP). The Federal Government pays for 72 percent of the average cost of coverage with the covered employee responsible for the remainder of the cost. Eligibility for FEHBP coverage for civilian retirees continues without regard to Medicare eligibility.

According to the Army's Retiree Council, DoD, our Nation's largest single employer, ranks in the bottom 11 percent of American employers with 10,000 or more employees in terms of the healthcare coverage provided to its Medicare-eligible beneficiaries.¹⁸²

In 1997, the Federal Government spent \$2.9 billion to provide FEHBP coverage to 1.67 million federal civilian beneficiaries age 65 or older. In the same year, the Federal Government budgeted additional funds for immigrant healthcare.¹⁸³ The Commission believes that priority for healthcare must go to those citizens who have served this country before we care for non-citizens.

Congressionally directed Base Realignment and Closure (BRAC) Commissions have closed or realigned a number of military bases, thus eliminating or reducing direct medical care in MTFs for retirees living in affected catchment areas. The military base structure still exceeds the force structure by some 20 percent. Since the end of the Cold War, DoD has reduced its budget by 40 percent, personnel by 33 percent, but infrastructure by only 21 percent.¹⁸⁴ Since DoD advocates at least two more rounds of BRAC for 2001 and 2005,¹⁸⁵ additional MTFs may be closed. These closures will effect some of the 1.2 million Uniformed Services beneficiaries eligible for Medicare. Fifty-two percent, or 624,000 of these beneficiaries, live within the catchment area of responsibility of an MTF, with 380,000 living near an MTF with 50 or more beds.¹⁸⁶

The Commission believes that priority for healthcare must go to those citizens who have served this country before we care for non-citizens.

¹⁸²Army Retiree Council Report, Annual Report of the Chief, April 3, 1998, pp. 1 – 9.

¹⁸³Health and Human Services Press Office, The PY 1998 Budget Proposal for HHS: Press Conference Remarks by HHS Secretary Donna E. Shalala, February 6, 1997, p. 3.

¹⁸⁴Admiral Jay Johnson, Acting Chairman, Joint Chiefs of Staff, DoD News Briefing, April 2, 1998.

¹⁸⁵Secretary of Defense William S. Cohen, DoD News Briefing, April 2, 1998.

¹⁸⁶GAO Report, *Military Retirees' Health Care*, GAO/HEHS-97-134, June 1997.

The retired military community remains actively engaged in seeking solutions to this problem. As a result, Congress authorized a limited pilot program of Medicare “subvention.” Subvention allows Medicare reimbursement to MTFs for the treatment of Medicare-eligible retirees in excess of the number of retirees treated in the past. The test program named “TRICARE Senior” began in 1998 with six test sites.¹⁸⁷ However, TRICARE Senior would provide coverage to only 30 to 40 percent of Medicare-eligible Service beneficiaries if it were expanded to a nationwide basis. This limited coverage is due both to the geographic limits to an MTF catchment area and the fact that not all retirees choose to live near an MTF.

Analysis

Healthcare after age 65 is a high priority concern for career servicemembers making their transition from active duty to civilian life. Many retirees believe that they have earned a greater benefit than Medicare coverage from their years of military service.

The FY 1998 Defense Authorization Act contained a section addressing the U.S. Government’s obligation to retired servicemembers and their family members. It is the Sense of Congress that:

...the United States has incurred a moral obligation to provide healthcare to members and former members of the Armed Services who are entitled to retired or retainer pay. It is, therefore, necessary to provide affordable healthcare to such retirees...

The Congress found “military retirees are the only Federal Government personnel who have been prevented from using their employer-provided healthcare at or after 65 years of age”. They realized that the difficulties in obtaining healthcare were exacerbated by downsizing. They stated that “military retirees deserve to have a healthcare program that is at least comparable with that of retirees from civilian employment by the Federal Government”.¹⁸⁸

In a November 1997 speech to the National Military Family Association, the Honorable Rudy De Leon, Under Secretary of Defense for Personnel and Readiness, drew a connection between retention and retiree healthcare when he stated “...if healthcare is there for retirees, those on active duty will know it will be there for them in retirement as well.”¹⁸⁹

FEHBP coverage at age 65 (FEHBP-65) would restore federal healthcare coverage for some of the Medicare-eligible Service beneficiaries who are unable to obtain space-available direct care or participate in TRICARE Senior.

Although healthcare coverage for Medicare-eligible Service retirees would be expensive, the central issue is fairness and equity, not affordability. In 1997, the Federal Government spent \$2.9 billion to provide FEHBP coverage to 1.67 million federal civilian beneficiaries aged 65 or older, and budgeted for immigrant healthcare. Thus, in the interest of fairness and equity for those who have endured the hardships and dangers of a service career, the cost of FEHBP-65 would be a small price to pay.

¹⁸⁷Defense Link News Release, HHS and DoD Announce New Medicare Option for Military Retirees. No. 065-98. February 12, 1998.

¹⁸⁸House of Representatives Conference Report 105-340.

¹⁸⁹Army Retiree Council Report, pp. 1-9.

In 1995, the Congressional Budget Office (CBO) estimated that providing Medicare-eligible beneficiaries with healthcare coverage through FEHBP would cost \$1.6 billion per year if 95 percent of the 1.2 million Medicare-eligible beneficiaries enrolled.¹⁹⁰ Unlike CBO, the Commission does not believe that 95 percent of eligible beneficiaries would enroll in FEHBP-65. The Commission was provided estimates that approximately 27 percent of potential beneficiaries would continue to receive care in MTFs and an additional 7 percent could gain access to MTF care when Medicare subvention is fully implemented. In addition, 10 percent will likely remain with their Medicare HMO and another 17 percent would keep their employer-sponsored healthcare coverage. Because FEHBP-65 coverage is not inexpensive, beneficiaries with access to MTF care or other less expensive alternatives would be unlikely to opt for FEHBP-65. The Commission's estimate of the number of beneficiaries who would choose FEHBP-65 is approximately 410,070 in FY 1999. The number of beneficiaries who choose FEHBP-65 may be further reduced if Congress enacts legislation extending the DoD mail order pharmacy benefit to Medicare eligible beneficiaries.

The FY 1999 Defense Authorization Act¹⁹¹ established a pilot program of FEHBP coverage for Medicare-eligible retirees. The results of this pilot program will provide actual enrollment, beneficiary satisfaction, and cost data. The Commission strongly supports this pilot program.

FINDINGS

- ◆ A primary concern of military retirees is healthcare. Retirees believe they were promised no cost, military healthcare for life. They do not believe that Medicare coverage fulfills that promise. Senior DoD officials believe limitations on retiree healthcare are perceived as an erosion of benefits and have a detrimental effect upon recruiting and retention.
- ◆ Access to direct DoD healthcare for military retirees and their families has eroded over the years as base closures and downsizing has limited space-available care.
- ◆ Additional base closures will further restrict space-available care, exacerbating the perception that retirees are being denied healthcare.

RECOMMENDATIONS

- ◆ That Congress support the test of FEHBP for Medicare-eligible military retirees and their eligible family members as established in the FY 1999 Defense Authorization Act.
- ◆ That Congress support the ongoing test of Medicare subvention.
- ◆ That DoD investigate the option of providing Medigap insurance for Medicare-eligible military retirees.

¹⁹⁰CBO, *Restructuring Military Medical Care*, July 1995.

¹⁹¹Public Law 105-261

BUDGET IMPLICATIONS - ISSUE III.B

Commission recommendations support FY 1999 Defense Authorization Act provisions to test the FEHBP proposal.

ISSUE III.C – USE COMBINED PURCHASING POWER FOR MEDICAL PRODUCTS

How can the separate DoD and VA purchasing organizations use their joint market power to achieve better pricing for medical products (pharmaceuticals, medical/surgical supplies, and equipment) and thereby free up resources for use elsewhere in their systems?

DISCUSSION

Background

VHA purchases pharmaceuticals and medical products through the National Acquisition Center (NAC) operated by the VA Office of Acquisition and Materiel Management. VA is responsible for medical purchasing for most of the nondefense federal healthcare sector. VA maintains the Federal Supply Schedules (FSS) for pharmaceuticals and medical/surgical items. NAC purchased \$1.9 billion in medical/surgical and pharmaceutical products for VHA in FY 1997. VA's NAC receives its baseline support from a revolving supply fund. Every year NAC more than fully reimburses the supply fund for its operating costs through FSS contract administration fees.

The Defense Logistics Agency (DLA) is responsible for the DoD medical purchasing. DLA purchases medical supplies through the Defense Supply Center Philadelphia (DSCP). DSCP purchased \$1.8 billion in medical/surgical and pharmaceutical products for DoD in FY 1997. DSCP's operational mission includes overseas transportation. VA does not have such a mission. Military readiness was reported to be much more closely associated with distribution of medical supplies than it was with purchasing of those supplies.¹⁹²

DSCP recovers the full costs of its operations from its customers through the Defense Working Capital Fund (DWCF) established by the FY 1992 Defense Authorization Act. DSCP averages product surcharges for all of its customers, rather than basing the surcharges on an individual customer's actual contribution to costs. DSCP surcharges (industrial funding fees) on the administration of its contracts are higher than VA's.

A June 1998 DoD IG report recommended that DoD use VA contracts and administration for pharmaceutical and medical/surgical purchasing. According to the IG findings, only 0.05 percent of DoD medical items were "military unique."¹⁹³

¹⁹²Presentation by COL Stuart Mervis, Director of Logistics, U.S. Army Medical Department, May 14, 1998, Healthcare Advisory Group Report, p. I-10.

DoD and VA operate their pharmacies and formularies under different rules. VA has a national formulary with limited availability of nonformulary items. VA fills only prescriptions prepared by its own physicians. DoD pharmacies stock a wide range of pharmaceutical supplies and fill all prescriptions brought to them by their beneficiaries, including those written by private physicians. DoD interprets the requirement in title 10 of the United States Code that patients be provided space-available care at military treatment facilities as also requiring it to provide patients with a prescribed drug if it is available in the DoD pharmacy.¹⁹⁴ If the drug is not available, the pharmacist discusses possible substitutes with the treating physician or returns the prescription to the patient, unfilled. DoD pharmacies do not provide over-the-counter items that VA pharmacies provide.

A June 1998 GAO report, with which DoD concurred, recommended that Congress direct DoD to establish a uniform formulary for its pharmacy programs. GAO said, “[A] uniform formulary with incentives for physicians to prescribe and beneficiaries to use formulary drugs could help reduce current benefit variability and increase cost-effectiveness.”¹⁹⁵ The DoD/VA Executive Committee is sponsoring an initiative to explore joint procurement of 27 classes of therapeutic pharmaceutical items and the potential for a partial joint formulary.

The Food and Drug Administration assigns unique product numbers (UPNs) to pharmaceutical items. UPNs make it easier for purchasers to buy on the basis of price by making “apples to apples” comparisons of standardized products and quantities possible. However, standardization of medical products is made more difficult by the lack of UPNs for those products. DSCP is leading an initiative for legislation that would require UPNs on medical items.

Analysis

DSCP and NAC each believe that it is the more cost-effective purchasing organization. DSCP disputes the DoD IG conclusion that VA’s NAC is more efficient and that DoD should use NAC for medical purchasing. In either case, efficient use of resources, combined with the potential for larger volume purchases, should lead to greater cost savings and efficiencies. Continued operation of redundant medical product purchasing organizations in DoD and VA increases costs for the Federal Government, both in the form of duplicated activities and also through the loss of quantity discounts.

From its experience with committed-volume purchasing, where savings have been as high as 50 percent for pharmaceuticals in some therapeutic classes, VA officials project savings of at least 10 percent and perhaps as much as 20 percent from the consolidation of DoD and VA medical surgical purchasing. However, to obtain these projected savings of \$370 million to \$740 million, a joint VA/DoD formulary and committed volume contracts would be necessary.

Overall savings of 10 percent is a conservative estimate. Actual savings may be significantly higher. For example, VA’s recent experience purchasing for a VA-wide formulary, championed by Under Secretary Dr. Kenneth Kizer, enabled VA’s Office of

¹⁹³Audit of the Acquisition of Medical Supplies and Equipment (Audit Project 6LD-5044.01), DoD Office of the Inspector General, 1998, p. 7.

¹⁹⁴10 U.S.C. § 1074

¹⁹⁵General Accounting Office, *Defense Health Care: Fully Integrated Pharmacy System Would Improve Service and Cost-Effectiveness*, HEHS-98-176, June 12, 1998.

Acquisition and Materiel Management to achieve savings of \$347 million in pharmaceutical expenditures for the period 1996-1998.¹⁹⁶ Savings ranged as high as 77 percent on individual items.

Large managed-care providers in the private sector use formularies, product standardization, and large committed-volume contracts to minimize their costs on a per-item basis. A single DoD/VA formulary would be an important enhancement to the systems' capabilities that would by itself save significant resources that could then be redirected to other healthcare needs. Additionally, VA provides refills for pharmaceuticals via Centralized Mail Outpatient Pharmacies (CMOPs) and DoD contracts for a similar service from Merck-Medco. The benefits obtained from a joint formulary could be expanded to these refill services or a merger of the DoD and VA refill services. Many of these "business" practices are transparent to beneficiaries and do not have the real or perceived adverse effects of other cost-cutting initiatives by managed-care systems.

The use of UPNs would greatly facilitate standardization of medical/surgical items. DoD (Health Affairs) projects that UPNs would enable DoD alone to save \$50 million to \$100 million annually.¹⁹⁷

FINDINGS

- ◆ In 1998, segmented purchasing by the federal healthcare sector is wasteful and makes no sense when it results in the loss of the quantity discounts that the private sector has demonstrated are possible.
- ◆ VA already procures medical surgical supplies for virtually the entire federal healthcare sector except DoD.
- ◆ DoD and VA could applying the savings realized from combining their purchasing power for pharmaceuticals, as well as medical/surgical supplies and equipment, to increase the amount of healthcare provided to their beneficiaries. Joint purchasing should not affect military readiness because readiness seems tied much more closely to distribution than to purchasing capability.
- ◆ Joint purchasing of pharmaceuticals as well as medical/surgical supplies and equipment would allow the Departments to develop additional procurement leverage for wartime and military readiness contractual requirements (e.g., surge and distribution requirements).
- ◆ A clinically based joint DoD/VA formulary would improve cost-effectiveness of pharmacy operations without compromising healthcare for beneficiaries.
- ◆ Application of universal product numbers to medical surgical supplies would result in procurement savings by encouraging price competition for the purchase of standardized products.

¹⁹⁶Presentation by George Patterson, VA, Healthcare Advisory Group Report, p. H-5.

¹⁹⁷Presentation by RADM Thomas Carrato, Office of the Assistant Secretary of Defense for Health, Healthcare Advisory Group Report, p. H-6.

RECOMMENDATIONS

That Congress enact legislation to require –

- ◆ DoD and VA to establish a single joint DoD/VA procurement office to purchase, in the most cost-effective manner possible, DoD/VA pharmaceuticals, as well as medical/surgical supplies and equipment.
- ◆ DoD and VA to follow the example of large private sector healthcare systems by developing a clinically based joint formulary within 1 year.
- ◆ Medical and surgical supplies be assigned universal product numbers (similar to those assigned to pharmaceuticals).

BUDGET IMPLICATIONS - ISSUE III.C

1st-year savings\$374 million
5-year cumulative savings\$1,915 million

Underlying Assumptions

- ◆ DoD costs based on FY 1997 actual, per the Defense Health Program Resource Data Base (DHPRDB).
- ◆ Pharmaceutical information from IG Report 98-154.
- ◆ VA costs based on FY 1997 actual, per VA.
- ◆ Outyears assume 1 percent inflation.
- ◆ DoD surcharge savings of 0.8 percent from pharmaceutical and supply (IG Report 98-154).
- ◆ Additional 10 percent in pharmaceutical savings for high-volume purchasing.
- ◆ Universal product numbers to yield 8-percent savings.
- ◆ Adjust DoD medical supplies and pharmaceuticals for military unique items by 3 percent.

ISSUE III.D - LEVERAGE INFORMATION TO STRENGTHEN DoD/VA PARTNERSHIP

What changes in DoD and VA information technology (IT) systems would allow their healthcare systems to work together more closely, utilize their resources more effectively and efficiently, improve patient care, and increase resource availability to meet beneficiary needs?

DISCUSSION

Background

DoD and VA are working together on a common computerized patient record called the Government Computer-Based Patient Record (G-CPR). G-CPR is a framework to format and move data as required. It will be vendor and platform independent. On February 3, 1998, Drs. Kenneth Kizer (VA's Undersecretary for Health) and Edward Martin (Assistant Secretary of Defense for Health Affairs) highlighted G-CPR as an important initiative when they briefed the Commission's Healthcare Advisory Group on their agencies' cooperation with each other.

G-CPR brings together not just VA and DoD but also the Indian Health Service and the State of Louisiana through Louisiana State University. The goal of the initiative is to permit a computer-based patient record to follow a patient anywhere in the world and from one government system to another.

VA and DoD currently maintain and use separate computerized medical information systems. Although both VA's system (VistA, previously known as Decentralized Hospital Computer Program or DHCP) and DoD's system (Composite Health Care System or CHCS) share a common ancestor, the two have evolved to the point that they are incompatible with each other.

Both DoD and VA are planning to replace their existing internally developed computer systems and seek commercial off-the-shelf products. However, under current plans, solicitations for these new systems will be separate. Although DoD's solicitation appeared ahead of VA, lack of FY 1999 funding may mean that VA will go forward with its solicitation before DoD. Life cycle costs for replacements for CHCS and VistA are expected to be more than \$2 billion *each*.

In their presentations to the Healthcare Advisory Group, Drs. Kizer and Martin were both very supportive of greater cooperation between the two healthcare systems and joint approaches to IT applications enabling closer association in the future.

Analysis

The G-CPR initiative by DoD and VA is an excellent example of the kind of significant accomplishment the two Departments might realize in partnership with one another. However, opportunities to enhance the partnership between the two Departments will be complicated, or even foreclosed, if the Departments perpetuate incompatible IT systems. Procurement of

separate IT systems may delay IT integration between DoD and VA until another generation of replacements is due for the two systems. This could be 10 years or more in the future.

Both healthcare systems face the challenge of adapting to changing healthcare practices, an evolving patient population, infrastructure built for another era, and increasing healthcare costs in an era of severe budget pressure. The Commission believes that neither system can be sustained as it is in the current budget climate and that, although DoD and VA have made strides in establishing a cooperative relationship, they must move towards an even closer partnership if they are to continue to succeed in their missions. A true partnership between the Departments would allow them to continue to provide quality healthcare to the largest possible number of beneficiaries by maximizing the return on their human and physical resources. A partnership between the Departments is necessary if they are to provide their beneficiaries with seamless access to a full continuum of healthcare services.

Procurement of separate IT systems may delay IT integration between DoD and VA until another generation of replacements is due for the two systems. This could be 10 years or more in the future.

However, realization of the benefits of such a partnership would require the instantaneous and seamless exchange of compatible and comparable data concerning all aspects of healthcare operations, clinical and business, between and among all of the components of the partners' healthcare systems. Common IT systems would make such an exchange routine. Incompatible, or even differing, IT systems would work against the success of a healthcare partnership between the Departments, and hence work against their ability to provide quality healthcare to their beneficiaries. Separate IT systems would move the Departments apart at a time when they should be moving together.

For that reason, to realize the maximum benefits for the beneficiaries of the two Departments, future IT system replacements and enhancements should be joint and should maximize the use of commercial off-the-shelf technology.

The Commission believes that, in addition to the improvements in service that would result from the effective partnership made possible by a common IT system, significant savings could be achieved because of the increased value of a contract. They could solicit for a contract to provide a common IT system for healthcare systems with a combined budget exceeding \$32 billion compared with two contracts to provide separate IT systems to two healthcare systems each with budgets approximately one-half that amount.

FINDINGS

- ◆ A healthcare partnership between the two Departments enhances their ability to continue providing quality care to their beneficiaries. Information technology is the cornerstone of any contemporary institution, and compatible information technology will be necessary for the beneficiaries of the two systems to realize the benefits of a partnership between them.

- ◆ A common VA/DoD IT system would provide a foundation for a partnership between the healthcare systems of the two Departments, would facilitate the seamless transition of patients from one system to the other, and would offer opportunities to realize the substantial cost savings that would accrue from vendor competition for one \$4 billion system rather than two \$2 billion systems.
- ◆ Combining DoD and VA IT requirements would greatly reduce the cost of operations. VA has estimated that the integration of their combined requirements would produce additional net savings of 3 to 5 percent of the combined annual DoD/VA IT budget of \$4 billion or cumulative savings of \$120 million to \$200 million over a 10-year procurement period.
- ◆ Future IT system replacements and enhancements should be joint and should maximize the use of commercial off-the-shelf technology.

RECOMMENDATIONS

That Congress enact legislation requiring DoD and VA to –

- ◆ Ensure that future IT system replacements and enhancements are done jointly and maximize the use of commercial off-the-shelf technology.
- ◆ Jointly offer a single solicitation for replacement of the CHCS and VistA system with integrated and interoperable systems able to meet the needs of both agencies.

BUDGET IMPLICATIONS - ISSUE III.D

VA projects savings in the range of \$120 million to \$200 million (3 to 5 percent of joint information technology procurement) over a 10-year life cycle.

Underlying Assumptions

- ◆ Opportunities exist for increased collaboration between DoD and VA in procuring and sharing systems and information.
- ◆ Based upon a VA projection, joint procurement of IT would produce significant savings of 3 to 5 percent of the total combined IT budget.
- ◆ Increased use of commercial off-the-self software, where available, would result in savings.
- ◆ Cost savings, customer service, and quality would probably result from development of an enrollment system for the military population.

ISSUE III.E - IMPROVE COST ACCOUNTING TO IMPROVE RESOURCE UTILIZATION

What changes in DoD and VA healthcare cost accounting systems would allow them to work more closely together, use their resources more effectively and efficiently, improve patient care, and increase resource availability to meet beneficiary needs?

DISCUSSION

Background

DoD has reported that, on average, the implementation of its TRICARE managed-care program is saving 16 percent over fee-for-service CHAMPUS program projections. A strong cost accounting system would support this shift to managed care and lead to additional savings where the system makes it possible to determine that services could not be economically provided on a direct care basis and should be contracted out through TRICARE.

VA is in the final stages of rolling out a commercial off-the-shelf (COTS) cost accounting system called Decision Support System (DSS). DSS is an executive information system that provides cost accounting data and fulfills many other patient management functions. It provides data on patterns of care and treatment outcomes linked to resource consumption and costs associated with healthcare processes. VA reports that DSS supports an enhanced data-driven management process that can improve the policies and practices of VA treatment facilities.

All but three VA sites have completed DSS implementation. The Basic Clinical Training Program supporting DSS uses a five-phase approach to introduce sites to clinical analysis and measurement over 9 to 12 months. Basic clinical training for the system is projected to be 100 percent complete by September 30, 1999.

In mid-1995, DoD established a COTS software-based cost accounting system within its Corporate Executive Information System (CEIS). Deployment of CEIS in the United States is planned to be complete in 1998. It will provide executive decision support information across the entire Military Health System (MHS), using data gathered from standardized sources to provide decision support for TRICARE.

Although it builds on component legacy systems, CEIS is being constructed from the 12 regional databases of the TRICARE Lead Agents and the Defense Information Systems Network. Each regional database will receive source data from the MTFs in that region.—

Analysis

Common definitions, terminology, and frames of reference for management information would greatly enhance the ability of the two healthcare systems to make decisions on the basis of common understanding. Such a common understanding is necessary for the two systems to cooperate with each other and critical if they are to become partners in providing care to their beneficiaries.

The cost of management attention applied to resolving differences and complications introduced into the otherwise successful VA/Air Force joint ventures in Albuquerque and Las Vegas because of the differing Air Force and VA accounting systems illustrates some of the value added by a common cost accounting system.

FINDINGS

- ◆ Detailed cost accounting information is a necessity to provide managers with adequate information for “make, buy, or share” decisions.
- ◆ In CEIS, DoD has a cost accounting system that appears sufficient to provide decision support for TRICARE.
- ◆ With DSS, VA is implementing a cost accounting system that will give it sufficient detailed information to support management decision making for the near future.
- ◆ Information developed from DSS and CEIS needs to be comparable if the two systems are to realize the economic benefits of cooperation with each other.

RECOMMENDATIONS

That Congress enact legislation requiring –

- ◆ DoD and VA to take immediate steps to ensure that data from information systems are comparable and compatible.
- ◆ Future cost accounting data always be comparable and compatible.

BUDGET IMPLICATIONS - ISSUE III.E

Although not quantified, sharing of similar information from the two systems is expected to result in quality of care improvements, and may it lower costs over time.

Underlying Assumptions

- ◆ CEIS and DSS are in final stages of implementation; thus, they present no opportunities for savings.
- ◆ Quality of care improvements and lower unit cost may accrue over time.

ISSUE III.F - INCREASE VA USE OF DoD's TRICARE FOR SELECTED VA MEDICAL SERVICES

Can VA improve the efficiency of its extramural healthcare programs, while at the same time improving the quality and availability of care, by partnering with DoD in the TRICARE program?

DISCUSSION

Background

VA has an extramural healthcare program through which it pays for private sector care provided to VA beneficiaries. Both VA and VA beneficiaries might benefit if these programs were integrated with DoD's TRICARE program, which includes vehicles for DoD-funded private sector care for DoD beneficiaries.

VA Programs

(1) The fee program is VA's fee-for-service complement to its direct care delivery system. Eligible veterans choose their own healthcare providers from the private sector but VA pays for the care beneficiaries receive. This program does not include care provided outside VA facilities under VA-directed contracts.

Eligibility for VA's fee program is limited. Eligible veterans are those needing care for a service-connected (SC) disability or for any healthcare need for veterans with SC disabilities rated as 50 percent or more.

VA may make the fee program available to eligible veterans only when it determines that it cannot economically provide needed services, that VA care is geographically inaccessible, or that the illness/debility of a patient makes travel difficult. VA facilities authorize fee-basis care in advance for specific time periods, although emergency care can be authorized after the fact in some strictly limited circumstances.

Eligibility for fee program care is locally determined and is not centrally funded in the VA budget. In FY 1997, the last period for which data is available, \$543 million was expended for fee program care. This expenditure covered 1,479,333 outpatient visits, 113,104 inpatient episodes, and 146,742 inpatient ancillary services.

(2) The Civilian Health and Medical Program of the Department of Veterans Affairs, or CHAMPVA, was originally modeled after DoD's Civilian Health and Medical Program of the Uniformed Services (CHAMPUS) program. CHAMPVA is available to dependents of veterans with permanent and total (P&T) service-connected disabilities and to the surviving spouses and children of veterans who died from a SC disability or who had a P&T SC disability at time of death.

Beneficiaries pay no premiums for coverage and the cost of care is shared between the beneficiary and CHAMPVA.¹⁹⁸ VA pays 75 percent of charges, with reimbursements limited by a schedule of allowable charges. Beneficiaries pay annual outpatient deductibles of \$50 per

individual or \$100 per family. Inpatient reimbursements are generally 75 percent of billed amounts. A catastrophic cap of \$7,500 per year limits beneficiary costs. The CHAMPVA program is projected to cover 95,462 enrollees in FY 1998, at a per capita cost of \$1,048. Summary obligations for the program for 1998 are projected at \$100 million.

DoD's CHAMPUS program, upon which CHAMPVA is based, has evolved into TRICARE and now offers beneficiaries three care options. In contrast, CHAMPVA has changed little, although VA is piloting access to mail-out pharmacy services. CHAMPVA beneficiaries, who are a population very similar to TRICARE-eligible family members, have no program options from which to choose. CHAMPVA beneficiaries have greater out-of-pocket expenses, and VA has higher costs, than would be imposed by some of the options for care available under TRICARE.

DoD has considerable experience with large contracts for private sector medical services through the TRICARE program. TRICARE Standard is essentially the fee-for-service continuation of CHAMPUS. However, in addition to this TRICARE option, beneficiaries have two other choices, Prime (a health maintenance organization like a managed-care program) and Extra (a preferred-provider network). Under Extra and Standard options, DoD acts as an insurer paying for beneficiaries' care, rather than providing direct care. DoD contracts with regional managed-care support contractors, who in turn establish networks of direct care providers to treat enrolled DoD beneficiaries.

The first 5-year TRICARE contracts with managed-care support contractors were awarded in 1995 and DoD will soon begin seeking their re-competition. DoD has reported that, on average, the implementation of its TRICARE managed-care program is saving 16 percent over fee-for-service CHAMPUS program projections.

Analysis

Both the VA and DoD healthcare systems operate extramural programs to pay for private sector healthcare for their beneficiaries, rather than providing care directly. The VA and DoD systems operate independently of each other. The DoD system offers beneficiaries more healthcare choices and realizes the advantages of managed care.

In arranging for healthcare services outside of their own facilities, DoD and VA operate much as do insurers in the private sector. Private sector experience shows clearly that big market shares can command competitive pricing for healthcare services. DoD, VA, and their beneficiaries could, therefore, benefit from combining their workloads to seek competitively priced, high-quality care.

Integrating VA beneficiaries into the TRICARE contracts would extend DoD's nationwide system of care and in-house contracting expertise to VA and VA's beneficiaries.

There is presently a window of opportunity for expanding DoD's TRICARE contracts with managed-care support contractors to include VA beneficiaries because the contracts will begin to be re-competed next year for award the following year.

A pilot program of coverage for VA fee-basis beneficiaries through DoD's TRICARE contracts would determine whether eligible veterans can be provided with additional choices for high-quality healthcare at competitive market rates and whether VA can realize savings

¹⁹⁸Presentation by Michael Hartford, VA, Healthcare Advisory Group Report, May 14, 1998, p. I-5.

through the use of TRICARE reimbursement rates. TRICARE reimbursement rates are typically less than the rates paid by VA for fee-basis care. TRICARE rates are typically discounted CMAC (CHAMPUS Maximum Allowable Charges) rates rather than the normal CMAC and RBRVS (Resource Based Relative Value Scale) rates typically paid by VA.

Beginning with a pilot program for fee-basis care would help the Departments work through on a small scale, any difficulties before expanding participation to a national scale. A pilot program would also demonstrate the effects of VA participation in TRICARE for veterans, family members, and other interested parties before VA participation is made the rule.

There is no need to pilot CHAMPVA participation in TRICARE because that transition would be an exact parallel to the CHAMPUS evolution into TRICARE. The opportunities for savings, especially for beneficiaries, as well as expanded care options, make the benefits of CHAMPVA participation in TRICARE clear.

FINDINGS

- ◆ DoD and VA operate parallel but separate programs for funding private sector provided healthcare services for eligible beneficiaries. The DoD program offers beneficiaries more care options than the VA program.
- ◆ VA beneficiaries would have more options for care, at less cost to VA, if CHAMPVA and VA's fee program were included in DoD's TRICARE contracts.
- ◆ DoD's contracts with managed-care support contractors will soon need to be renewed, opening a window of opportunity for testing the effects of expanding the DoD program to include VA beneficiaries.
- ◆ A pilot program would provide an opportunity to resolve implementation problems on a small scale and to verify that such an integration benefits VA beneficiaries without diminishing their quality of care.

RECOMMENDATIONS

- ◆ That Congress enact legislation directing DoD and VA to conduct a pilot program testing the provision of VA fee-basis care under TRICARE contracts, with the costs of VA patients borne by VA. The goal of this pilot program would be to determine if access to care and quality of care could be provided on a more cost-effective basis.
- ◆ That VA expand the care options for the CHAMPVA beneficiaries by using the TRICARE contract, with the costs of VA patients borne by VA.

BUDGET IMPLICATIONS - ISSUE III.F

1st-year savings	\$10 million
5-year cumulative savings	\$46 million

Underlying Assumptions

- ◆ Fee Program
 - ❖ Limit current fee program baseline to outpatient, hospital, and ancillary services components.
 - ❖ VHA nursing home/home health contracts are already competitive and cannot be improved by switching to TRICARE rates.
 - ❖ Average savings 5 percent.
 - ❖ Without incentives, 75 percent of veterans using the fee program will use providers that do not have TRICARE contracts.
 - ❖ No changes occur in number of patients using fee program.
 - ❖ Funding for fee program grows 3 percent per year between FY 2000 and 2002, and 4 percent thereafter.
- ◆ CHAMPVA
 - ❖ Funding for CHAMPVA grows 3 percent per year between FY 2000 and 2002 and 4 percent thereafter.
 - ❖ Average costs for DoD TRICARE beneficiaries increase 3.9 percent in outyears.
 - ❖ No changes occur in number of CHAMPVA beneficiaries.
 - ❖ VA costs would be comparable to DoD TRICARE.

ISSUE III.G - COORDINATE DoD AND VA MEDICAL RESEARCH

How can DoD and VA collaborate to improve healthcare research for their beneficiaries and the Nation?

Can DoD and VA research achievements be strengthened by increasing public recognition of their work and diversifying sources of research funding?

DISCUSSION

Background

VA and DoD's combined annual medical research budgets (from all sources) exceed \$1.37 billion, of which less than \$20 million is coordinated between the Departments.

Although VA and DoD have achieved significant breakthroughs in their medical research programs, these successes have remained largely unnoticed by the American people, who both fund and eventually benefit from these advances. Few Americans associate VA with world-class research, although two Nobel laureates received awards for their work at VA. Like VA,

DoD has a history of successful research going as far back as Walter Reed's cure for yellow fever to recent discoveries extending the shelf life of frozen blood to 20 years and developing a Hepatitis-A vaccine.

Analysis

VA research is funded through both its own appropriations and extramural sources. According to the April 1998 GAO report *VA Hospitals*, “VA’s medical and prosthetic research appropriation has slowed . . . [and] research funding declined as an overall percentage of medical care appropriation from 2.0 percent in 1980 to 1.2 percent in 1996.” However, with successful competition for National Institutes of Health (NIH) awards and contributions from voluntary groups, such as the Paralyzed Veterans of America, VA has been able not only to maintain its overall research effort, but also to increase it to levels beyond \$1 billion in FY 1998.¹⁹⁹ Together, however, VA and DoD receive less than \$260 million of the \$10 billion awarded annually for extramural research by NIH.²⁰⁰

VA research is generally not centrally prioritized. Funding is based on peer review of investigator-initiated proposals unless it is directed to certain areas (e.g., Agent Orange and Persian Gulf Illness). VA’s “research realignment,” intended to give greater weight to research that supports departmental priorities, resulted in little actual redirection of funds.

DoD conducts a vast array of military medical research (biological defense, operations research, quality, outcomes, clinical protocols, etc). Control of the overall DoD medical research budget is decentralized to the Services, except for clinical research under the jurisdiction of DoD Health Affairs. Funding from Health Affairs for DoD medical research is at least \$375 million, but is greater when grants awarded to the field from external sources like NIH are included.²⁰¹

VA and DoD receive little recognition or financial return for their research successes. VA and DoD seldom seek royalties for the application of their groundbreaking research.²⁰² Commercial and Trade Technology Innovations provide for the transfer of governmentally developed technology to state and other governments as well as the private sector. Reimbursement for these ideas may flow back to the sponsor through many vehicles patents, licenses, royalties, etc. However, copyright does not protect government publication of books, pamphlets, journals, articles, manuscripts, software, and videos leaving a large gap in protection of governmentally funded and developed concepts.

VA often has seeded the research of promising ideas only to lose recognition once the concept is developed by the private sector. For example, the firm manufacturing the raw material for the “Seattle Foot,” a prosthetic device developed by VA researchers, featured the prosthetic in its television advertising. The firm withdrew the ad when VA noted that the Department received no mention or royalty for its work. In another case, VA spent \$1 million to develop prosthetic design software, which a private company then sold worldwide for

¹⁹⁹U.S. General Accounting Office, Report to the Chairman, Subcommittee on Veterans Affairs, US Senate, *VA Hospitals: Issues and Challenges for the Future*, April 1998, pp. 255-264, and telephone discussion, Veterans Health Administration Research Office, April 1998.

²⁰⁰Extramural Funding Central Office, National Institutes of Health, telephone interview, April 1998.

²⁰¹Patty Lewis, telephone discussion, Office of the Assistant Secretary of Defense for Health, April 1998.

²⁰²15 U.S.C. § 3710 and § 3710a .

\$10,000 a copy after only a slight product alteration. In addition, physicians often fail to mention their employment with VA and instead commonly associate themselves with affiliated medical schools when discussing research success.²⁰³

FINDINGS

- ◆ VA and DoD's medical research capabilities are unique assets for the Nation, as well as for the Departments and their beneficiaries. A vigorous research effort assists the Departments in recruiting and retaining the high-quality staff necessary to assure continued high-quality medical services for their beneficiaries. The value of DoD and VA's research assets are neither well known nor well understood by the American public.
- ◆ Despite their disparate missions, VA and DoD research efforts could be shared or coordinated in many areas. Partnering would allow VA and DoD to share resources and enable researchers to access broader longitudinal study populations. Joint research activity could result in stronger applications and lead to increased extramural grants in areas of common interest, such as aging, AIDS, cancer, cardiovascular disease, diabetes, fibromyalgia, spinal cord injury, smoking, rehabilitation, and mental health.
- ◆ VA and DoD's research capabilities, and their resulting achievements, could be increased by developing additional non-appropriated funding sources, including royalty revenue from the commercialization of their research findings.

RECOMMENDATIONS

- ◆ That DoD and VA maintain their research capacity.
- ◆ That a combined DoD/VA research committee meet at least annually to establish a joint cooperative integrated research agenda for the following year.
- ◆ That Congress enact legislation directing DoD and VA to ensure public awareness of the benefits of their research and to take steps to realize a financial return from their research accomplishments.

BUDGET IMPLICATIONS - ISSUE III.G

None

Underlying Assumptions

- ◆ The minimal administrative coordination that would be necessary by clinical investigators is absorbed by current positions.
- ◆ Some revenue is likely to be derived from licensed, patented, and copyrighted research.
- ◆ Savings from efficiencies are most likely to be used by research programs to increase their research activity.

²⁰³Healthcare Advisory Group Report, Annex I, pp. I-1-6.

ISSUE III.H - DELIVER COST-EFFECTIVE SERVICES TO HOMELESS VETERANS

How can the VA and DoD provide more cost-effective services for homeless veterans?

DISCUSSION

Background

VA estimates that veterans comprise one-third of America's homeless population. This estimates means that between 300,000 and 500,000 veterans are homeless during any given year.

VA Programs for Homelessness

Former Secretary of Veterans Affairs, Jesse Brown, described the plight of the homeless veteran as a national tragedy. He stated that combating homelessness among veterans was one of VA's top priorities and that he wanted VA to lead in the fight against homelessness.²⁰⁴

Table 2 summarizes the wide range of VA programs targeted to serve homeless veterans.

Table 2: VA Specialized Programs for the Homeless

Abbreviation	Program	FY 1997 Cost (millions)	FY 1997 Patients
DCHV	Domiciliary Care For Homeless Veterans	\$37.214	4,619
HCHV	Health Care For Homeless Veterans Program (Less GPD)	\$33.063	35,059
GPD	Grant Per Diem Program	\$5	7,000
HMLS CWT/TR	Homeless Veterans Compensated Work Therapy Program with Transitional Residence	\$2.3	440
HUD-VASH	Housing and Urban Development, Veterans Affairs Supported Housing Program (permanent Section 8 housing)	\$4.958	4,485

The Commission acknowledges the value of VA's community-based programs for the homeless and feels that more funds should be directed to the plight of homeless veterans.

Of the programs the Commission reviewed in some detail, the Grant Per Diem program²⁰⁵ that allows VA to combine forces with community providers in addressing homelessness among veterans may hold out the greatest opportunity for making significant progress. Under that program, VA provides a community-based organization with a grant of 65 percent of the amount needed to purchase or renovate a housing facility. VA also pays 50 percent of ongoing operational expenses, up to \$16 per occupant per day. The Grant Per Diem program helps community-based programs, such as Swords to Plowshares in San Francisco, provide housing, rehabilitation, and job training. The goal is stable employment and self-sufficiency.²⁰⁶

²⁰⁴. VA Office of Inspector General, *Review of Department of Veterans Affairs Assistance to Homeless Veterans*, September 20, 1996, p.i.

²⁰⁵. The Homeless Veteran Comprehensive Service Program Act of 1992 (Public. Law. 102-590).

Some programs combine social and employment services for homeless veterans with housing. For example, Westside Residence Hall in Los Angeles provides transitional housing, counseling, and job opportunities for approximately 300 previously homeless veterans. The product of a private/public venture, this program offers a clean and sober living environment, daily meals, and case management for vocational, financial, social, legal, recovery, and benefits issues. The public and nonprofit components of the partnership depend upon the

Homeless veterans served the Nation, but continue to encounter barriers to a successful transition to civilian life.

Disabled American Veterans and other veterans' service organizations, the Los Angeles Veterans Initiative, Inc., the Los Angeles Department of Military Affairs, and 22 AmeriCorps volunteers. Residents are required to pay rent, stay drug free and sober, and submit to random toxicology screenings.²⁰⁷ VA provides doctors and social workers to support clinical services for the veteran clients being served through the program.

DOL provides services to homeless veterans through the Homeless Veterans Reintegration Projects (HVRP) program.

The HVRP program provides support to homeless veterans while linking them with other employment programs. During FY 1998, 2,200 veterans received supportive services that provided clothing, shelter, medical referrals, and transportation. Eighteen hundred of those veterans entered employment at an average cost of \$1,700 per placement. Although the program is authorized funding at the rate of \$10 million per year, HVRP appropriations have averaged only \$2.5 million. The program is authorized through FY 1999.

Analysis

Homeless veterans served the Nation, but continue to encounter barriers to a successful transition to civilian life.

The Commission believes that residential treatment plays an important role in effectively delivering health services to that portion of VA's patient population that is homeless. A VA study conducted in September 1996²⁰⁸ found that 25 percent of VA's inpatient population was homeless or without an address upon discharge from the hospital. However, the movement of VA medical care from inpatient to outpatient settings has reduced VA's ability to provide residential treatment to homeless veterans. The Commission believes that VA should direct a significant portion of their efforts to community-based treatment of homeless veterans.

Although a community-based approach to serving homeless veterans can be cost-effective, these programs must be backed up by the ability to provide acute care in VA facilities in support of veterans who suffer relapses with their medical, mental, or substance abuse problems.²⁰⁹

^{206.} Healthcare Advisory Group Report, Annex-U, pp. U-1 to- U-2.

^{207.} Transition Commission Trip Summary, Los Angeles, California, August 1998.

^{208.} Department of Veterans Affairs. FY 1996 End-of-year survey of homeless veterans in VA acute inpatient programs, September 1996, pp. i-ii.

^{209.} Michael Blecker, *Swords to Plowshares: Status of Department of Veterans Affairs Inpatient Programs*, September 1998.

The Commission believes that community-based programs supported by the VA Grant Per Diem program have been successful. However, the ability of these programs to provide services is impaired by the requirement to match VA's grant for operational expenses with "hard dollars." The Commission believes that services for homeless veterans could be expanded in a cost effective manner if the matching requirement also could be satisfied with "soft dollars" represented by in-kind services, such as a university's donation of psychologists' services.

Grants are now available only to fund the start-up of new programs. The Commission believes that existing community-based programs should be able to compete for grants to expand services. Grant funds should be allocated where they will do the most good. Existing programs with track records of success should not be penalized.

The Commission believes that the Grant Per Diem program is effective but underfunded. Increased funding would represent an opportunity to realize a significant improvement in services to homeless veterans, as well as eventual savings through avoiding costs for future medical, mental or substance abuse treatment.

The unique combination of supportive housing and comprehensive services provided at the Westside Residence Hall was possible when funds made available to mitigate the effect of a freeway project were used to finance the purchase of a former college dormitory, with the mortgage repayable through rent collected from veteran clients. This model for providing care appears to be cost-effective because it provides services to homeless veterans in a less resource-intensive setting than a medical center. For that reason, the per-patient cost of care may be less than the per-patient cost of providing care through traditional venues for serving homeless veterans.

NOTE: The Commission did not conduct a comprehensive review of the entire spectrum of programs providing services to veterans, and Commission recommendations concerning specific programs should not be taken as criticism of programs not discussed in this section.

FINDINGS

- ◆ Homeless veterans personify the ultimate stage of a failed transition from active duty to civilian life.
- ◆ A substantial number of homeless veterans do not now have effective access to services that could assist their return to the workforce and a more normal life.
- ◆ VA should increase support to community-based organizations to serve homeless veterans in areas where there are no VA-operated residential treatment facilities.
- ◆ Savings derived from the elimination of acute care beds should be used for supporting treatment programs serving homeless veterans.
- ◆ Job training programs play a key role in serving homeless veterans. DOL's HVRP program has proven itself a cost-efficient model for employment and training of homeless veterans.
- ◆ The VA's Grant Per Diem program can provide a strong vehicle for assisting public and private providers in creating new programs and supporting existing programs to serve homeless veterans.

- ◆ VA has much unused physical plant that is available for reuse through VA's Enhanced Use Lease Program.
- ◆ Public/private partnerships and nonprofit community-based service delivery systems may provide cost-effective mechanisms for providing services to homeless veterans.

RECOMMENDATIONS

That Congress enact legislation to –

- ◆ Amend VA's Grant Per Diem program for homeless veterans to allow –
 - ❖ In-kind goods and services provided by community institutions and individuals to count against matching requirements for grants for operational expenses.
 - ❖ Funding of existing as well as new programs.
- ◆ Increase funding for the Grant Per Diem program to approach \$50 million annually by FY 2000.
- ◆ Direct VA to channel a significant portion of savings from elimination of acute care beds to community-based residential treatment of homeless veterans.
- ◆ Urge VA to employ its Enhanced Use Lease authority to support community-based residential care for homeless veterans.
- ◆ Reauthorize DOL's HVRP program beyond FY 1999 and appropriate funding at the \$10M level authorized.

BUDGET IMPLICATIONS - ISSUE III.H

1st-year costs.....\$53 million
5-year cumulative costs.....\$263 million

Underlying Assumptions

- ◆ Average yearly appropriation for Grant Per Diem program is \$5 million.
- ◆ Average yearly appropriation for HVRP is \$2.5 million.
- ◆ Eventual undetermined savings will accrue to VA from investing in community-based partnerships to address homelessness.
- ◆ Such savings may be used to treat additional veteran patients.

ISSUE III.I - REVIEW HOW DoD AND VA CONDUCT GRADUATE MEDICAL EDUCATION

Would DoD and VA beneficiaries and the Nation be better served by a shared DoD/VA graduate medical education (GME) program, or should DoD and VA continue to operate GME independently?

DISCUSSION

Background

Both DoD and VA value their GME programs and civilian affiliations. Both GME and civilian affiliations have significant influence on the operation of the medical centers and encourage active participation in medical research. However, the mission differences between DoD and the VA, specifically the readiness and mobilization needs of DoD, explain why DoD developed Service-specific GME programs and VA developed affiliations with civilian medical schools.

Department of Veterans Affairs GME

VHA's GME is conducted through affiliation with schools of medicine. These affiliations enhance the quality of care provided to veteran patients within the VHA healthcare system.

Currently, 130 VHA medical facilities are affiliated with 107 of the Nation's 125 medical schools. VA supports 8,700 physician resident positions, approximately 10 percent of the graduate medical education positions in the United States. Through these partnerships, more than 32,000 medical residents and 20,000 medical students receive some of their training in VHA facilities every year. More than 65 percent of the Nation's physicians have received training in the VA system. VA also provides partial salary support of medical school or university faculty who see patients at VA facilities, supervise residents, and conduct research. More than 7,000 of VA's 10,000 full-time equivalent employee physicians are also medical school faculty.

Between academic year 1992-1993 and academic year 1995-1996, through several voluntary initiatives, VHA increased the percentage of medical resident positions in primary care disciplines from 33.7 percent to 38.6 percent. In FY 1996, a Residency Realignment Review Committee was appointed to advise VA's Under Secretary for Health on realignment of VHA's medical residency programs to ensure that VHA GME affiliations would meet the future healthcare needs of both the VA and the Nation. As a result, by the year 2001, VHA will shift 1,000 specialty resident positions to primary care, increasing that specialty from 38 percent to 48 percent of residency positions.

Historically, VA also has been a leader in training associated health professionals. Through affiliations with individual health profession schools, clinical internships and fellowships are provided to students in more than 40 professions, including nursing, pharmacy, dentistry, audiology, dietetics, social work, psychology, physical therapy, optometry, nuclear medicine technology, physician assistance, and respiratory therapy. Approximately 41,000 associated health students receive training in VA facilities each year.

Department of Defense GME

DoD, through the Army, Navy, and Air Force, sponsors 230 GME programs with approximately 3,000 physicians in training. All DoD programs are accredited and follow accreditation guidelines with regard to size, rotation length, internships, residencies, and fellowships. These programs are operated directly and independently by DoD, rather than through affiliation with a medical school. DoD has at least one program in almost every

recognized specialty and fellowship. Each Service determines its needs for particular specialists and sizes its training programs accordingly. DoD oversight of these programs includes setting policy, funding, and monitoring of the annual selection process. DoD oversees the Uniformed Services University of the Health Sciences and funds the scholarship program that supports the majority of military physicians.

Currently, little coordination occurs between DoD and VA with regard to GME at the headquarters levels. However, at the local level, some individual programs do have cooperative agreements between these systems.

DoD is studying the administration of its GME programs and considering consolidating those functions where consolidation could lead to greater efficiencies. Currently, each Service has direct responsibility for its programs and would have to be approached individually to examine possibilities for integration or cooperation. An initiative to increase cooperation with VA may be beneficial after the current DoD study is completed.²¹⁰

Analysis

Efforts over the years to find opportunities for collaboration in GME have met with mixed results. DoD Health Affairs and VHA point to the Albuquerque/Kirtland Air Force Base joint venture as a success story. Mission differences and readiness requirements are cited as the reasons limiting efforts of GME collaboration.²¹¹

During FY 1996, a DoD/VA committee investigated opportunities for GME collaboration. The committee concluded that efficiencies could be obtained in standardizing the processing of legal agreements for cooperative activities and for streamlining the personnel processing of the individuals involved in the actual collaborative ventures. The committee was concerned that top-down-directed efforts to integrate GME programs for the sake of integration alone might threaten the unique purposes of each Department's program. As a result, DoD and VA established a standardized collaboration/affiliation agreement that is used on a limited basis and streamlined personnel processing of joint DoD/VA appointments, including verification of licensure and credentials.²¹²

Current DoD and VA cooperative ventures include –

- ◆ Jointly sponsoring internships and residencies in medicine and associated health professions.
- ◆ Making clinical rotation sites available to medical residents or associated health professions trainees in respective DoD and university/VA accredited programs.
- ◆ Making VA facilities available as clinical experience sites for military reserve healthcare professionals educational programs.

²¹⁰Capt. Orcutt, Power point slides, DoD, Health Affairs, May 1998.

²¹¹Gloria Holland, VHA Office of Academic Affairs, VA White Paper on Health Professions Education, Participation in U.S. Graduate Medical Education, May 1998.

²¹²Gloria Holland, Ibid.

FINDING

- ◆ Solid rationale supports the different purposes of GME for DoD and VA. For that reason, the Commission does not advocate a consolidation of these programs.

RECOMMENDATIONS

That Congress enact legislation requiring –

- ◆ A comprehensive review of funding provided to teaching hospitals by Medicare GME, indirect medical education, and DoD/VA GME programs to identify opportunities for coordinating and streamlining federal subsidies to the teaching hospitals.
- ◆ A comprehensive review of current DoD/VA GME collaboration to determine if opportunities for greater collaboration exist.

BUDGET IMPLICATIONS - ISSUE III.I

None

Underlying Assumptions

- ◆ DoD and VA use existing resources.
- ◆ Efficiencies will most likely be used to enhance other activities.

CHAPTER IV - ECONOMIC EQUITY

OVERVIEW

The benefits provided to servicemembers and veterans have many purposes. These programs can serve as a reward for valuable and difficult service to the Nation, as mitigation for the economic disadvantages imposed by the hardships of military service, and as a recruiting incentive. Some programs have only one function; others simultaneously advance some or all of these goals. However, if benefit programs are to remain successful, they must be regularly updated to reflect changes in the economic and social environment and changes in the circumstances of the men and women who defend the Nation. Commission recommendations relating to economic equity will, if implemented, help to ensure that these benefits continue to reflect the realities of the 21st century.

In roundtables, focus groups, and site visits, servicemembers told the Commission that they place great value on their entitlement to a home loan guaranty. However, housing, real estate finance industries, and military compensation have all changed dramatically since the home loan benefit was first enacted in 1944. The Commission proposes changes to ensure that the benefit continues to provide servicemembers and veterans with an opportunity for homeownership at a reasonable cost to the taxpayer.

A servicemember's road to post service economic equity and well-being begins with financial decisions that are made while the member is still on active duty. For that reason, the Commission proposes reforms that will provide servicemembers with information on financial management and assist them in taking control of their financial future during their military careers and building the foundation for their postservice lives in the dynamic financial environment of the 21st century.

Savings are a major building block for financial planning, both during active duty and in preparation for postservice financial well-being. The Commission believes that active-duty servicemembers should have access to the same financial incentives and rewards for savings as are available to civilian federal employees and to most Americans. The Commission proposes a program of tax-deferred savings that it believes will provide a financial benefit to servicemembers, as well as assist the Services to recruit and retain the high-quality men and women needed to defend the country. Such a program is becoming a standard part of the compensation package made available by American employers, and the Commission believes that as an employer of choice for an all-volunteer force, DoD should provide servicemembers with a complete range of contemporary employee benefits.

If benefit programs are to remain successful, they must be regularly updated to reflect changes in the economic and social environment and changes in the circumstances of the men and women who defend the Nation.

Small business ownership represents one path to postservice economic equity for the men and women whose service ensures the future of the Nation's economic and political liberties. However, the path to successful entrepreneurship is a difficult one. Commission recommendations suggest reforms and programs that would help servicemembers and veterans take advantage of opportunities in the Nation's 21st century free-market economy.

The Commission believes that benefits for servicemembers of the next century, like benefits for servicemembers of this century, should accurately reflect the gravity of the times. The Commission considers it inappropriate for the service of individuals on active duty, now and in the future, to carry the designation of a conflict now almost 8 years past. For that reason, the Commission proposes that Congress establish a date, after which active duty will no longer be considered service during the Persian Gulf War.

These proposals, and proposals found in other chapters of this report, will help ensure that benefits for servicemembers and veterans remain current to meet the needs of the times.

ISSUE IV.A - REFOCUS VA'S HOUSING PROGRAM TOWARD VETERANS IN TRANSITION

Can the VA home loan program be improved or streamlined for veterans of the 21st century?

DISCUSSION

Background

Before enactment of the World War II GI Bill in 1944, America's most generous housing finance program was Federal Housing Administration (FHA) mortgage insurance, which insured 20-year loans and required 20-percent down payments. The VA home loan guaranty program gave veterans access to loans with no down payments that were repayable over a period that was eventually extended to 30 years.

Analysis

Home Loan Guaranties Remain a Valuable Benefit

No-money-down VA home loans were the only way veterans returning from World War II could possibly obtain a home. The Nation was then dealing with millions of veterans who had received only subsistence pay while on active duty and who returned home from a total mobilization of the Nation's resources.

The situation today is different. Today the Nation is essentially in a time of peace. It has an all-volunteer force, which receives compensation that is significantly greater than that paid to persons who were conscripted into the military.

Many veterans would not be able to purchase their first homes without the VA benefit

However, a down payment remains one of the greatest obstacles faced by a first-time homebuyer. The 1998 National Housing Survey, conducted by the federally chartered company Fannie Mae, reported that “not having enough money for a down payment or closing costs is still the greatest perceived obstacle to homeownership, with 29 percent of all adults citing it as a “major obstacle.”²¹³

The Commission believes that this is especially true for recently discharged veterans. Many veterans would not be able to purchase their first homes without the VA benefit. They simply do not have the cash needed to both make a down payment and pay other required closing costs. In FY1997, VA reported that 92 percent of all loans made to purchase a home were made with no down payment. These borrowers had median assets of \$3,700. With closing costs typically ranging from \$2,000 for loans under \$50,000 to more than \$6,000 for higher loan amounts, the no-down-payment feature was the crucial factor in obtaining a home. Home-buying veterans needed their cash to pay closing costs. VA reported that in its 1997 customer survey, 70 percent of veterans said that they would not have been able to purchase their homes without a VA- guaranteed loan.²¹⁴

“Upside Down” Loans: An Unnecessary Burden on Home-Buying Veterans

Initially, veterans were not charged for using the VA home loan guaranty. However, since 1982, veterans (except those receiving compensation for a service-connected disability) have been required to pay a fee, now 2 percent of the loan amount, to use their benefit. This fee was imposed as a small part of a coordinated, government-wide attack on the federal budget deficit.

The fee is usually added to the initial loan amount and financed over the term of the loan. The result is a loan that is “upside down,” that is, the veteran’s debt is greater than the value of the home just purchased, and the veteran has a “negative equity” in the property. Veterans who encounter financial difficulties in the early years of home ownership may not be able to sell the property for enough to pay off the loan.

The Commission recommends that this change apply to individuals who enter active duty after date of enactment.

One-Time Use for New Accessions: An Effective Transition Benefit

The original Servicemen’s Readjustment Act of 1944 limited veterans to a single home loan guaranty and required them to use it within 2 years of their separation from military service or 2 years from the ending date of the World War II, whichever was later. Over the years, the program was liberalized to remove the deadline for using the benefit, allow refinancing loans, and permit veterans to regain and reuse their entitlement for the purchase of another home.

²¹³. Fannie Mae News Release, Washington, D.C., July 16, 1998

²¹⁴. Testimony of Mr. Keith Pedigo, Director, VA Loan Guaranty Service, February 17, 1998, Commission Hearing.

These enhancements increased the scarce federal resources committed to this benefit and increased the taxpayers' exposure to the risk of default. The Commission believes that transition is not a lifelong process and that one VA-guaranteed home loan would be an effective transition benefit for veterans of the 21st century. Veteran homeowners seeking to buy a second home would do so with the home equity and credit record created by their first home loan. In addition, numerous alternative vehicles are now available for financing a home purchase. For example: The FHA loan program does not require veterans to make any down payment on the first \$25,000 borrowed. For any additional amount borrowed, FHA requires only a 5-percent down payment. For those who qualify for a conventional loan, Fannie Mae currently has a program called Fannie 97, which requires only a 3-percent down payment. Bank of America recently announced a similar pilot. The Commission sees no compelling justification for multiple use of the home loan benefit, with the exception of interest rate reduction refinancing.²¹⁵ Accordingly, the Commission recommends that Congress amend current law to allow only one use of the home loan benefit. An exception should be made for loans that reduce the interest rate on an outstanding VA loan. The change should apply only to individuals who enter active duty after the date of enactment. The resources saved by limiting the home loan benefit could be redirected to other veterans' priorities.

Reservist Eligibility Should Be Permanent

Under current law, Reservists who have completed 6 years of service are eligible for VA home loans. This eligibility expires October 27, 1999. Given the important role Reservists play in the Total Force concept of today's Armed Forces, the Commission believes Reservist eligibility should be made permanent and should be identical to the active duty benefit.

Currently, each Service provides a "points statement" to Reservists, usually on an annual basis, to document their service. These statements are different for each Service and are not readily understood by private sector lenders. The Commission believes that DoD should provide a uniform document to each member of the Selected Reserve who completes the required 6-year period of service. This document would confirm eligibility for benefits, just as the current DD Form 214 confirms the service of active-duty servicemembers. It should be clear, unambiguous, and easy to obtain.

Pilot Program To Determine If Lenders Should Be Responsible for the Resale of Foreclosed Properties

Under current law, when a VA home loan is foreclosed, the lender has the option of transferring the property to VA for resale. The Commission believes that VA need not be in the business of acquiring, managing, repairing, and reselling foreclosed properties. This responsibility could be handled by the private sector, as it is for conventional loans, and VA resources could be redirected to other areas.

²¹⁵ "Streamlined" interest rate reduction refinancing authorized under 38 U.S.C. §§ 3710(a)(8) and (e) allows veterans to refinance the outstanding balance of the existing VA loan, but not to take cash equity out of the property. These streamlined refinancing loans are beneficial to both VA as guarantor of the loan and to the borrower because the reduced interest rate on the outstanding obligation lessens the risk of default.

A pilot program should be designed to evaluate the effect on veterans and servicemembers, as well as the cost savings to VA. If implemented, the proposed changes to the home loan property management program could result in savings estimated to be \$1.4 billion over 10 years. The pilot program would not apply to loans that VA has already guaranteed. However, for a selected group of loans made after the effective date of the proposed legislation, VA's obligation would be limited to paying lender's claims.²¹⁶ On these new loans, VA would no longer be obligated to purchase and resell foreclosed properties.

The Commission recommends that VA test this concept in one or more of its Service Delivery Networks, as determined by the Secretary. If the 2-year pilot program is successful and the change adopted on a nationwide basis, VA's home loan program workload would be significantly reduced. VA's fiscal year 1999 budget submission projects that VA will acquire 26,475 properties over the course of the year, dispose of 25,734 properties, and end the year with 13,055 properties on hand. VA reports that 257 of 1,330 Loan Guaranty Service field staff work in property management. Freeing VA of property management responsibilities would make these staff positions available for meeting other veterans' needs.

FINDINGS

- ◆ The opportunity to buy a home with no down payment is a valuable benefit for servicemembers in transition from military to civilian life because lack of funds for a down payment and closing costs remain an obstacle to servicemember and veteran homeownership.
- ◆ The funding fee imposed on veterans who use the VA home loan benefit was strictly a budgetary measure. It was never properly justified by program policy considerations and is simply wrong as a matter of sound policy.
- ◆ Transition is not a lifelong process, and servicemembers and veterans who have purchased their first home have less need for VA assistance in buying a subsequent home. Other housing finance programs are available to all persons, including veterans, through FHA and the private sector.
- ◆ Reservists are an important part of the Total Force structure and should continue to be included in the home loan guaranty program.
- ◆ It may not be necessary for VA to acquire and resell foreclosed properties. This function could be performed by the private sector.

²¹⁶ 38 USC § 3703. Currently, for loans exceeding \$56,250, the maximum guaranty is the lesser of \$36,000 or 40 percent of the loan amount. For qualified loans of more than \$144,000, the maximum guaranty is the lesser of \$50,750 or 25 percent of the loan amount. Under current law, VA pays a claim based on the difference between the outstanding indebtedness, plus foreclosure costs, and the "net value" of the property to VA. Net value is defined in 38 USC § 3732(c) as essentially the fair market value of the property minus VA's estimated cost of acquiring, managing, and disposing of the property. The law also provides the lender in most cases with an option to convey the property to VA for an amount equal to the net value of the property.

RECOMMENDATIONS

That Congress enact legislation to:

- ◆ For persons beginning active duty on or after the effective date of the legislation, eliminate the funding fee beneficiaries now are required to pay in order to receive a VA-guaranteed loan.
- ◆ For persons beginning active duty on or after the effective date of the legislation, limit VA home loan guaranty to a single use, either while on active duty or after separation, except for refinancing loans that simply permit the veteran or servicemember to reduce the interest rate on an outstanding VA loan.
- ◆ Make permanent the Reservists' home loan guaranty eligibility (now scheduled to expire at the end of FY 1999) and direct DoD to promptly provide Reservists who complete 6 years of honorable service with a simple, uniform, easy-to-read document verifying their eligibility for this benefit.
- ◆ Establish a 2-year pilot program to determine the effect of limiting VA's obligation under the guaranty to paying a claim and making lenders responsible for disposing of foreclosed properties. The pilot program would be limited to one or more geographic areas, as determined by the Secretary of Veterans Affairs.

BUDGET IMPLICATIONS - ISSUE IV.A

1st-year savings \$0 million
5-year cumulative savings \$32 million

Underlying Assumptions

- ◆ Limiting the proposed changes to one-time use and eliminating the funding fee to accessions after the effective date would have no savings implications in the first 5 years.
- ◆ Permanently authorizing Reserve eligibility is budget neutral provided the reservists' fees adequately pay for defaults.
- ◆ Savings from a pilot test of lenders' liquidating foreclosed properties applicable to loans made after the effective date is based on one-ninth of the total.

ISSUE IV.B - ALLOW SERVICEMEMBERS TO PARTICIPATE IN FEDERAL THRIFT SAVINGS PLAN

Should servicemembers be allowed to participate in a tax-deferred voluntary payroll savings plan that would provide increased opportunity for building savings and would enable the military to be a more competitive employer in the 21st century?

DISCUSSION

Background

Today, most large employers sponsor some form of tax-deferred payroll savings plan like a federal 401(k).²¹⁷ Federal civilian employees can participate in the Thrift Savings Plan (TSP), a 401(k)-like plan managed by the independent Federal Thrift Savings Board that allows employees to make tax-deferred contributions to investment plans. However, “[u]nlike most public and private sector civilian employees, members of the uniformed services are not permitted to participate in a tax-deferred savings plan.”²¹⁸ DoD surveys show that many servicemembers believe they have no appreciable savings and little opportunity to build them.²¹⁹

TSP would make military service more attractive. Because most military personnel (82 percent) leave military service before gaining retirement eligibility, the opportunity to build savings that can be carried over to their civilian employment may be an important factor in potential recruits’ decision to enlist. The authority for DoD to deposit enlistment and reenlistment bonuses of servicemembers into their TSP account as a tax-deferred benefit would enhance significantly the ability to retain key personnel. Employers need a diverse array of benefits like savings plans “to retain the talent they have and attract more talent.”²²⁰

Young servicemembers saving a few thousand dollars during their first term of service could see that money become a major portion of their retirement savings.

TSP is simple and offers 3 investment options: a government bond fund (G-Fund), a fixed-income fund (F-fund), and a common stock fund mirroring the S&P 500 (C-fund). TSP also is convenient. Participants contribute with automatic payroll deductions. If TSP were available to servicemembers, they could let their funds remain in TSP or roll the money over into a new retirement plan when they leave active duty, either by separating or retiring. An E-7 making the maximum monthly

²¹⁷ Willette, A. “How Plans Stack up at the USA’s 100 Biggest Employers,” *USA Today*, Nov. 24, 1997, p. 6B

²¹⁸ December 19, 1997 Letter from Under Secretary of Defense of Personnel and Readiness Rudy de Leon to the House Subcommittee on Military Personnel.

²¹⁹ Armed Forces Financial Network, *Survey of Armed Forces Financial Needs and Behaviors*, 1996, p.16

²²⁰ Ginsburg Steven, “Along with the Paycheck, Lessons in How to Use It,” *Washington Post*, May 10, 1998, p. H04.

CHAPTER IV - ECONOMIC EQUITY

contribution to the C-Fund for 20 years could have \$116,798 in his or her TSP account at retirement. If left in the C-Fund, those savings could grow to \$1,889,823 by age 59½, when savings can be withdrawn without penalty.

The real strength of TSP is the compounding of earnings over time. Dollars saved today pay large dividends in the future. Young servicemembers saving a few thousand dollars during their first term of service could see that money become a major portion of their retirement savings. If compounded at a rate of 12 percent, the historical return on stocks, \$3,000 contributed to TSP would become \$195,928 in 35 years.

Analysis

Those who oppose servicemember participation in TSP fear that Congress may use the availability of a savings plan as an excuse to reduce military retirement. However, Congress has already reduced the value of military retirement, without the making a military savings plan available.

Opponents also point to investment options, like the Roth Individual Retirement Account (IRA) that already are available to servicemembers. However, people with incomes similar to military personnel simply do not participate in IRAs. In 1992, only 5 percent of those eligible for tax-deferred IRA contributions actually made them.²²¹ IRA purchasers must make their own investment decisions. This responsibility could deter young military personnel with neither the time nor the experience needed to make informed investment decisions. In contrast, the government offers its civilian employees savings options that are both stable and easy to understand.

IRAs, especially those invested in stock plans, often require large initial investments. Servicemembers, however, could start contributing to TSP with little as \$1. The TSP management fees are very low compared to other investing plans (see table 3 below). TSP allows civilian employees to change their contributions during open season periods every 6 months. They also can make interfund transfers between investment options monthly. While still on active duty, servicemembers would be eligible for loans from their TSP savings accounts. They would pay themselves back at the G-Fund rate of interest. This option is an advantage over the Roth IRA, because when funds are removed from a Roth IRA, they cannot be returned for any future retirement. Simple, flexible, and convenient, TSP would be the ideal investment tool for today's servicemember.

Table 3: TSP C-Fund Compared With Index-Based IRAs

Fund	Minimum Initial Investment	Minimum Monthly Automatic Investment	Annual Expense per \$1000	5-Year Average Return
TSP C-Fund	\$1	\$1	\$1	20.7 percent
Price Equity-Income Fund	\$1000	\$50	\$18	19.3 percent
Vanguard S&P 500 Index Fund	\$1000	\$50	\$12	20.6 percent
USAA S&P 500 Index Fund	\$2000	\$50	\$12	N/A

²²¹. Employee Benefit Research Institute Databook on Employee Benefits, 4th ed., April 1995 Table 15.1

Although not all servicemembers may chose to participate in a savings plan, many can easily afford to make a full contribution (5 percent) to TSP from their disposable income. If a payroll savings plan is not made available, military personnel will be denied an option that many of their civilian counterparts enjoy.

The TSP is a very popular benefit among Federal civilian employees. More than 650,000 Civil Service Retirement System (CSRS)-eligible federal employees make TSP contributions even though they receive no match from the government. It is unfair to deny military personnel this important savings opportunity.

The Services are experiencing difficulty in achieving both their recruiting and retention goals. A benefits package including savings options commonly available in the civilian world would help DoD meet its manpower requirements.

Young officers are highly coveted by employers offering 401(k) plans and the attrition rate of these officers is alarmingly high. DoD provides its personnel with extensive and expensive training. A savings plan option may help entice young officers into continuing their service to the Nation.

The military should encourage sound financial management by servicemembers.²²² A tax-deferred savings plan would provide an effective vehicle for servicemembers to begin accumulating savings. It would be the right thing for DoD, as a responsible employer to do.

FINDINGS

- ◆ Savings empower individuals to take advantage of opportunities later in life. A tax-deferred savings plan is an effective recruiting and retention tool for employers. Both servicemembers and the military Services are unnecessarily placed at a disadvantage by the lack of a convenient, affordable tax-deferred savings plan for servicemembers.
- ◆ Servicemembers are at a disadvantage in accumulating long-term savings compared with individuals who do not serve on active duty.
- ◆ A tax-deferred savings plan would create an additional benefit for servicemembers without competing against other activities for scarce DoD appropriations. A savings plan would simply allow servicemembers to voluntarily save more of their own money and enjoy an option that many civilians already have.

RECOMMENDATIONS

That Congress enact legislation permitting active-duty military personnel to make non-matching tax-deferred contributions of up to 5 percent of their basic pay, and all or any part of any enlistment or reenlistment bonus, to the Federal civilian employees' TSP administered by the independent Federal Thrift Savings Board. Since participation would be voluntary, TSP would not in any way add to or substitute for military retirement or compensation.

²²². See Issue IV-e in this report for a recommendation on fostering personal financial management.

BUDGET IMPLICATIONS - ISSUE IV.B

1st-year costs.....	\$21 million
5-year cumulative costs.....	\$181 million

Underlying Assumptions

- ◆ Federal Thrift Investment Board estimates 10 percent participation rate in first year and an additional 3 percent each of the next 4 years.
- ◆ Composite tax rate of the Armed Forces is 16 percent per OSD Directorate of Compensation.
- ◆ Basic military pay is \$32 billion in President's FY 1999 budget. Payroll projections increase by 3 percent annually.
- ◆ Average contribution of non-matching TSP participants is approximately 4 percent.

ISSUE IV.C - STREAMLINE DISABILITY PHYSICAL EVALUATION PROCESS

Can a streamlined disability physical evaluation process increase efficiency, reduce redundancy, and improve the way the Federal Government provides for disabled servicemembers and veterans?

DISCUSSION

Background

Servicemembers who become disabled while on active duty may look to three different disability compensation systems (DoD, VA, and Social Security) for income support after they leave active duty.

If a servicemember is released from active duty because of disability and is evaluated as 30 percent disabled or more, he or she is eligible for DoD disability retirement payments. If the disability is evaluated at less than 30 percent, the servicemember receives a one-time payment of disability severance pay from DoD.

A former servicemember also is entitled to VA disability compensation for any disability that was incurred or aggravated during the period he or she was on active duty (unless the disability is the result of misconduct). To avoid duplicate payment for the same disabilities, veterans are required to waive an amount of retirement pay equal to the amount of VA disability compensation they receive. In the case of severance pay, VA disability compensation payments are withheld until the amount equal to the amount of severance pay has been recouped.

Currently, both DoD and VA use the same VA Schedule for Rating Disabilities to make determinations for their disability evaluation systems. However, the two systems apply different standards because they make determinations for different purposes. DoD is concerned with fitness for military duty and, for those individuals who will be separated or retired due to disability, the degree of impairment resulting from the dominant injury or illness. VA, on the other hand, determines average impairment to civilian earning capacity based on all service-connected disabilities.

The *1993 National Performance Review* recommended that DoD and VA identify ways to streamline or consolidate their disability compensation adjudication and disbursement processes. Pilot tests show that benefits can be achieved from such a consolidation. In July 1997, a VA/DoD Separation Examination Test demonstrated that veterans received their benefits faster when applications for VA compensation benefits were assembled and decided at the point of discharge. DoD's current time standards for the disability evaluation system are 30 days for the Medical Evaluation Board (MEB) and another 40 days for the physical evaluation process. Actual time is 2 -to- 3 months for the MEB and 40 days for the physical evaluation process (PEB).²²³ In contrast, all 669 claims finalized during the Separation Exam Test were processed in less than 34.7 days.

The Separation Exam Test was used for individuals being separated or retired because of disability, but VA is conducting additional tests involving the general population of separating servicemembers. VA is testing the effects of pre-discharge claims development, examinations, and rating preparation at Forts Lewis, Hood, and Knox. At the Navy's Great Lakes Naval Training Center, VA is collecting and reviewing medical and administrative information before discharge and authorizing disability compensation awards on the day of discharge. The VA/Great Lakes Naval Training Center Pre-Discharge Claims Processing Team received the Vice President's Hammer Award for its effort. VA also has assigned rating specialists to adjudicate cases at Fort Knox, Kentucky; Camp Pendleton, California; and Offutt Air Force Base, Nebraska.

Analysis

Under the present dual evaluation systems, DoD and VA separately review cases to make rating determinations. A Combined DoD/VA Disability Evaluation Rating Board would avoid this redundancy. A single compensation system would eliminate the redundancy between systems.

The duplicate DoD and VA systems have their origin in the Nation's historic pattern of maintaining only a small standing military in times of peace and relying on volunteers in case of war or emergency. Historically, the War and Navy Departments met the postservice needs of veterans of the regular establishment when they retired. Volunteers in time of war or emergency were rewarded with bonuses, land grants and, in their old age, service pensions. It was not until the 20th century that the Nation relied on mass conscription of citizen soldiers in time of war. VA's predecessor, the Veterans Bureau, was formed after World War I to administer veterans' disability compensation programs in part because War and Navy

²²³Office of Assistant Secretary of Defense (Force Management Policy) testimony before the Congressional Commission, Feb. 18, 1998.

CHAPTER IV - ECONOMIC EQUITY

Department personnel systems and compensation programs were inapplicable and inappropriate for millions of demobilized conscripts. Many of these veterans of short-term service needed immediate care and compensation for injuries and illnesses incurred during the war. The separate military and veterans' compensation systems were reinforced by the large numbers of short-term citizen soldiers who served in World War II, Korea, Vietnam, and the Cold War.

At the same time, however, the distinction between the military and VA compensation systems was blurred as military disability retirement benefits became available to all servicemembers, not just members of the regular establishment. Today, the Cold War is over, the Nation is returning to a smaller all-volunteer force, and advances in communications and information management makes it easier to transmit information across bureaucratic boundaries.

For these reasons, it is appropriate to ask if it is still necessary to maintain separate and independent DoD and VA disability compensation systems to meet the needs of individuals who develop illnesses or are injured while on active duty.

The Commission addresses this issue with a two-track proposal.

- ◆ First, and for the long term, it proposes that Congress direct the two Departments identify the issues involved and propose a plan to unify the two systems, together with an analysis of the effects.
- ◆ Second, and for the immediate term, the Commission proposes that Congress direct the two Departments to provide a common physical exam and a combined VA/DoD disability evaluation board for individuals being separated or retired due to disability.

Incorporation of predischARGE physical examinations, using VA protocols, into the MEB process would provide a thorough, well-documented separation examination that would form the basis for a decision on any future disability claim a veteran might file.²²⁴ In addition, a single pre-discharge physical examination would eliminate the inconvenience of two separate medical examinations, one for DoD's use in determining fitness for duty and the degree of disability for purposes of disability retirement and separation pay, and another for VA's use in making service-connected disability rating determinations. Lengthy delays in processing VA claims due to waiting for additional medical information could be virtually eliminated.

Under the recommended process, Service representatives on the board would retain sole responsibility for fitness and retention decisions. When the Service determines that an individual is unfit for duty, the combined board would then identify and assign the degree of disability for conditions that would form the basis for military disability retirement/separation decisions by DoD and service-connected disability compensation decisions by VA.

VA leadership has established a goal of locating disability claims decision makers at service separation points so that claims can be adjudicated on the spot as an integral part of the separation process. This approach is made difficult by the large number of separation points and, for overseas locations, difficulties in housing VA employees.²²⁵

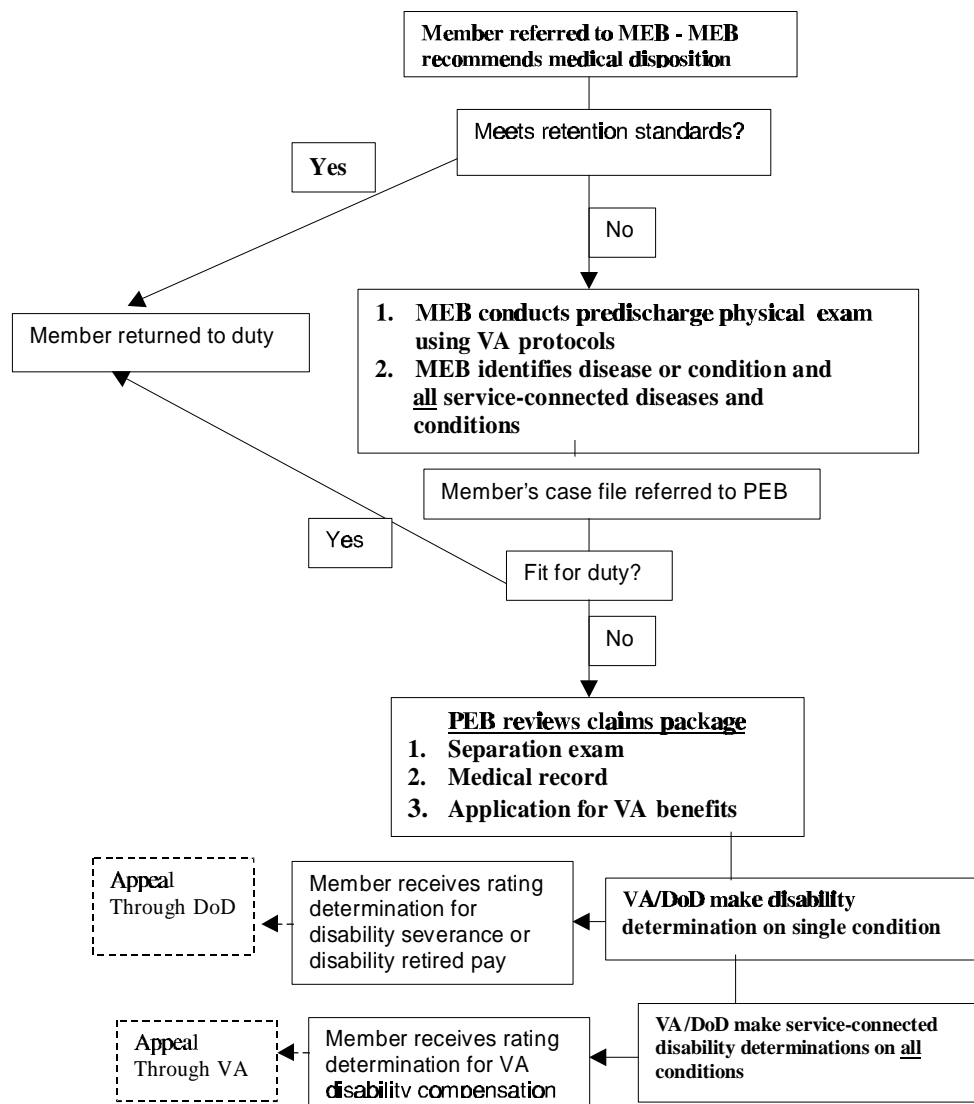
²²⁴ VA response to Report to Congress of the Veterans' Claims Adjudication Commission, April 1997, p. A-91.

²²⁵ VA Under Secretary for Benefits Joseph Thompson, briefing to the Commission, September 9, 1998.

Closer coordination of the disability evaluation process has the potential to significantly improve service for servicemembers in the process of becoming veterans and make enhanced use of scarce DoD and VA funding and human resources. In addition, increased coordination could set the stage for consolidation of the two disability compensation payment systems.

Figure 1 outlines the proposed process and responsibilities.

FIGURE 1



**PROPOSED COMBINED DoD/VA DISABILITY EVALUATION RATING BOARD
PROCESS FOR SERVICEMEMBERS**

Source: Consultation with DoD and VA

FINDINGS

- ◆ The DoD severance pay/disability retirement system and the VA disability compensation system both serve the same basic purpose. Maintaining duplicate systems for the same purpose is redundant and consumes scarce resources at a time when the two Departments are under severe budget pressure.
- ◆ The current system of separate DoD and VA physical examinations and disability rating determinations imposes both inconvenience and delay on servicemembers being separated or retired due to disability.
- ◆ Determinations of fitness for duty and retention should remain a uniquely military responsibility, but separate examinations and determinations of the nature and degree of disability are wasteful of scarce DoD and VA medical and staff resources.
- ◆ Consolidation of the Services' separate disability evaluation systems into a single joint system would facilitate establishing a Combined DoD/VA Disability Evaluation Rating Board.
- ◆ DoD and VA can improve service and use resources more efficiently by (1) consolidating their dual disability evaluation systems into a single process to create dual ratings, (2) establishing a combined DoD/VA Disability Evaluation Rating Board, and (3) using VA protocols to conduct pre-discharge physical examinations.
- ◆ Service to separating servicemembers would be improved if VA disability claims decision makers could evaluate disability compensation claims at the time and place of separation from active duty.
- ◆ Completed and ongoing pilot tests by VA and the military Services have already laid the foundation for a Combined DoD/VA Disability Evaluation Rating Board. DoD and VA only need to build on that foundation.

RECOMMENDATIONS

That DoD and VA—

- ◆ Jointly identify and analyze the issues that must be resolved in order for the two disability compensation systems to be consolidated into a single system, and within 1 year of enactment of legislation propose a plan for implementing such a consolidation, including necessary changes in legislation.
- ◆ Establish a Combined Disability Evaluation Rating Board that would administer the disability evaluation systems as a single process to obtain dual ratings for individuals being separated or retired due to disability. The Combined Board would collect and review servicemembers' separation examinations, medical records, and disability claim applications and make rating determinations at the time and point of discharge.
- ◆ Coordinate with each other in organizing and administering the separation process, including assistance with housing VA personnel at overseas locations to enable VA to station disability claims decision makers at separation points serving the largest possible number of separating servicemembers.

BUDGET IMPLICATIONS - ISSUE IV.C

1st-year savings	\$10 million
5-year cumulative savings	\$55 million

Underlying Assumptions

- ◆ DoD conducts 26,100 PEB examinations annually.
- ◆ VA estimates that 90 percent of PEB examinations are inadequate for VA determinations.
- ◆ Average cost of a VA examination in FY 1998 was \$428.
- ◆ Cost of exam is increased by 3 percent each year.
- ◆ Administrative cost of the Rating Board comes from current resources.

ISSUE IV.D - ENHANCE ECONOMIC OPPORTUNITY THROUGH ENTREPRENEURSHIP

What assistance can the Federal Government provide for servicemembers and veterans who are interested in establishing or expanding a small business?

DISCUSSION

Background

According to the SBA Office of Advocacy, small firms represent 99.7 percent of all employers and employ 53 percent of the private work force. According to Bureau of Census data, veterans own about 4 million of the approximately 22 million small businesses in America. Disabled veterans own about 800,000 businesses.

Access to Information

Our society is increasingly mobile. The servicemember knows this well from firsthand experience. Individuals desiring to start small businesses place a value on being able to access on-line, up-to-date information on a wide variety of small business subjects, from start-up and compliance to doing business with the government.²²⁶ Currently, SBA maintains Procurement Marketing and Access Network (PRO-NET). PRO-NET is a Web-based database identifying thousands of small businesses wishing to do business with the Federal Government, either as a prime contractor or subcontractor. Small businesses can identify themselves as veteran or

²²⁶Written statement of Patricia Peacock, Ed. D., Director, Regional Small Business Development Center, Commission Small Business Roundtable, January 13, 1998, p. 4.

disabled veteran-owned. Businesses register and are responsible for keeping their profiles current. Contracting officers of federal agencies and large prime contractors use the database to identify capable small businesses.

Access to Capital

Recent changes in the banking industry, evidenced by a series of large mergers, have eroded the entrepreneur's ability to access capital from traditional lending institutions.²²⁷ The original 1944 GI Bill offered a farm and small business loan program for veterans, that managed by VA until 1974. In 1986, Congress provided the SBA with authority to make direct business loans to veterans, but provided no funding to implement the program.

Access to Markets

The Federal Government helps create a market for small businesses owned by individuals who are members of groups considered to be socially or economically disadvantaged through the 8(a) small business development program administered by SBA.²²⁸ Under this program, federal agencies procure a portion of their goods and services through SBA from businesses that participate in the program.

Analysis

Some veterans wish to create, manage, and grow their own small businesses.²²⁹ Servicemembers and veterans may be at a disadvantage in establishing successful businesses

As a matter of fundamental fairness, the Commission believes Congress should accord veterans a full opportunity to participate in the economic system that their service sustains.

because the demands of military service, including frequent moves, make it difficult to establish and maintain business and financial relationships in a community. In addition, disabled veterans must overcome the barriers to economic activity that their disabilities impose. A national initiative of private-public cooperation designed and operated to assist veterans would have the potential to increase productivity and economic growth. A 5-year profile survey of veteran-owned businesses in Massachusetts conducted in the late 1980's and early 1990's showed that a pool of approximately 2,000 veterans engaged in micro

businesses generated \$74 million in taxable income for the Commonwealth of Massachusetts.²³⁰

²²⁷Town Meeting co-hosted by the Commission and the Honorable James M. Talent, Chairman, Committee on Small Business, United States House of Representatives, St. Louis, Missouri, March 23, 1998.

²²⁸15 U.S.C., §§ 637(a) and 636 (j).

²²⁹Oral testimony of William D. Elmore, President, Data Force Associates, and multiple other participants, Town Meeting, St. Louis, Missouri, March 23, 1998.

²³⁰Dr. Paul R. Camacho letter to Congressman Talent, March 19, 1998.

Access to Information

The average age of servicemembers at separation is 26. Their interest in entrepreneurship appears to be no less than that of the general population; nearly 30 percent of those who started a business during 1995 were aged 29 or younger.²³¹

Servicemembers are often disadvantaged in accessing information because of mobility requirements and deployments throughout the world, sometimes for significant periods of time, often at remote locations and at sea. A witness at a Commission roundtable testified that servicemembers and veterans who aspire to start a small business place a high value on (a) structured learning opportunities, including business plan development, marketing, and accounting; (b) opportunities to identify and comprehend the numerous regulations governing small businesses; and (c) opportunities to learn from other veteran's experiences, that invaluable support to the fledgling business owner.²³² Such "entrepreneurial education" can be developed in units to meet the needs of the individual through a variety of mediums, not the least of which should be the computer and the Internet.²³³

Further, the Commission received testimony that without proper information and support systems in place, former servicemembers and military retirees will not consider entrepreneurship as a viable career option because they often see it as a "loosely played game," fraught with risk and little, if any, reward.²³⁴ Finally, expanding SBA's PRO-NET to include all veteran-owned businesses, not just those that desire federal contracting opportunities, would provide veteran entrepreneurs with a mechanism to identify trading partners, mentor-protégé opportunities, teaming affiliates, and subcontracting opportunities.²³⁵

Access to Capital

One of the most challenging aspects of starting a small business is access of capital. The current trend of rapid consolidation in the banking industry could either boost or limit the volume of funds flowing to small businesses, depending on the general goals of the lending institution. Reliance on commercial bank financing has dropped and, regrettably, use of credit cards to finance small businesses is increasing.²³⁶ Credit cards require a higher interest rate than commercial banks and card use hurts the cash flow and financial management practices of the small business owner.

Military service is the most fundamental form of service to the Nation. As a matter of fundamental fairness, the Commission believes Congress should accord veterans a full opportunity to participate in the economic system that their service sustains. On average, time in the military puts these individuals 4 years behind their non-veteran peers.²³⁷ By definition, veterans are a group comprised of all races and ethnicities, all religions, a broad spectrum of

²³¹Written Statement of Cliff Waldman, National Federal of Independent Businesses Foundation, Commission Small Business Roundtable, January 14, 1998.

²³²Testimony of Ben Loyola, President, Loyola Enterprises, Commission Small Business Roundtable, January 14, 1998.

²³³Peacock, Ibid.

²³⁴Waldman, Ibid.

²³⁵Peacock, Ibid and Camacho, Ibid.

²³⁶Arthur Anderson Enterprise Group, *Survey of Small and Mid-Sized Business*, 1997, p. 39.

²³⁷Town Meeting, Gavitt, Ibid.

moral and political persuasions, both genders, and the full range of human achievement.²³⁸ To the extent that the United States owes a special obligation or assistance in entrepreneurship development to any group or groups, veterans have earned the opportunity to be included. In essence, veterans should simply have fair access to programs (financial, procurement, and management assistance) that are already in place.²³⁹

Access to Markets

Currently, individuals with disabilities and disabled veterans are not one of the statutorily named groups identified as socially and economically disadvantaged by the Federal Government in promoting affirmative action procurement. Expanding SBA's 8(a) program to include firms owned by service-connected disabled veterans would help them access protected federal markets, as well as provide them with access to management and financial assistance from the SBA.

Another way to assist veterans in operating successful ventures would be to establish goals for federal agencies to procure goods and services from veteran-owned businesses. Such goals would require federal agencies to increase attention to potential business relationships with such firms. The goals could be segmented to include distinct subgoals for disabled-veteran business owners. The Offices of Small and Disadvantaged Business Utilization in federal agencies and departments already have an established mechanism for enforcing procurement goals. Accommodating a new goal category for veterans would require minimal revision to the existing system.

FINDINGS

- ◆ Veterans have earned an opportunity for increased participation in the economic life of the country through their defense of the Nation's economic and political interests and they can be placed at a disadvantage because of the demands of military service.
- ◆ The veteran or servicemember who is inclined toward entrepreneurship could receive much needed assistance from a support network providing information about business practices, entrepreneurship opportunities, financing, and other business issues.
- ◆ Disabled-veteran entrepreneurs require additional assistance because these business owners encounter costs and impediments that are not factors for their nondisabled competitors.
- ◆ Special assistance, such as unique lending opportunities and access to a disadvantaged business development program like SBA's 8(a) program, is needed to support disabled veteran entrepreneurs.
- ◆ Federal agencies do not now have an incentive to use veteran-owned contractors. Veteran entrepreneurs have earned such an incentive through their service.

²³⁸Patrick T. Heavey, Director, The Veterans' Advocacy Foundation, Inc., Presentation, Commission Town Meeting, St. Louis, Missouri, March 23, 1998.

²³⁹ Town Meeting, Talent, Ibid.

RECOMMENDATIONS

That Congress enact legislation to establish a veterans' program within the Office of Small and Disadvantaged Business Utilization in VA, funded by the Secretary with appropriate staff and resources. The office would support servicemembers and veterans who need access to information, access to capital, management assistance and access to markets to establish or expand a business. The office would also coordinate with the SBA to support veteran's entrepreneurship.

Component elements of the proposed program would include:

Access to Information

- ◆ Information Clearinghouse: An electronic web site that displays local, state, federal and private sector assistance programs and offices, with key personnel, phone numbers, mail and electronic addresses. The web site would provide a brief description of the available programs.
- ◆ Pre-Business Education: Self-directed distance learning through an Internet site or via correspondence study through the In-Service Institutes²⁴⁰ would provide servicemembers and veterans with college credit for studying business basics, accounting, marketing, and other key topics for start-up business owners. This course could be completed concurrently with transition assistance program counseling or while using Small Business Development Center guidance.
- ◆ Veterans' Business Database: Establishment of PRO-NET as the officially recognized veteran-owned business database. Encourage veteran entrepreneurs to register their company information, even if they are not currently interested in federal opportunities.

Access to Capital

- ◆ Loans for Service-Connected Disabled Veterans: A 100-percent loan guaranty program for veterans with a service-connected disability rated at 50 percent or more through SBA's certified lenders, using SBA's 8(a) Program and existing funding and resources. The Commission recommends a target of \$10 million in loans yearly for this population. These loans should be applied to lending institutions' Community Services Reinvestment Act credits. Under CSRA, banks are required to make loans in local areas of high risk. The CSRA would act as an incentive to the banks to make loans to veterans if the loans counted toward CSRA credits.
- ◆ Loans for Veteran-Owned Businesses: A lending program for veterans through SBA lenders, using existing funding and resources. The proportion of the total loans that would be available to veterans would be consistent with the percentage of veterans in the small business population.

²⁴⁰. Entities that offer self-study courses in such topics as financing, business start-up issues including taxes and licensing, business plan development, marketing, and other areas that would be developed to assist veterans considering self-employment.

Access to Markets

- ◆ Disabled Veterans in SBA's 8(a) Program: Expansion of the existing business development program to veteran entrepreneurs who have a service-connected disability rated 50 percent or greater.
- ◆ Veteran-Owned Business Federal Procurement Goal: The veteran goal would be segmented to include a distinct subgoal for business with disabled-veteran business owners. The Commission recommends establishing a percentage goal for veteran-owned firms and a percentage goal for disabled veteran-owned firms, the percentages to be set by Congress. These percentage goals pertain to DoD, VA, and DOL procurement programs.
- ◆ Veteran Entrepreneur Outreach: An outreach program, for veteran entrepreneurs on procurement opportunities within federal agencies, conducted by existing Offices of Small and Disadvantaged Business Utilization.

BUDGET IMPLICATIONS ISSUE IV.D

None

Underlying Assumptions

- ◆ Program to be absorbed by VA using existing funding and resources.
- ◆ Funding for service-connected disabled veterans and veteran-owned business loan programs to come from existing SBA funding.

ISSUE IV.E - FOSTER PERSONAL FINANCIAL MANAGEMENT SKILLS FOR SERVICEMEMBERS

How can the problems resulting from poor financial management by servicemembers be prevented?

DISCUSSION

Background

A 1997 RAND Corporation study found that 31 percent of enlisted personnel report that they have personal financial management problems.²⁴¹ A 1995 DoD survey found that 14.6 percent of servicemembers identified financial problems as one of the top five sources of their stress.²⁴² In a 1998 report, RAND found that military personnel are more prone to financial problems than their civilian counterparts.²⁴³

Although military leaders are troubled by the disproportionate amount of time they spend counseling personnel with financial problems, the Services do not require attendance at personal financial management counseling sessions until after servicemembers encounter serious financial problems..

Analysis

The Commission believes that financial management classes, as a preventive measure, would cost the Services far less than the time and resources they now spend resolving financial problems after they arise. Improved financial skills could increase retention and reduced financial stress would allow military personnel to increase focus on their mission. These outcomes should improve individual performance and overall unit readiness. Enhanced money management skills also would help servicemembers make a successful transition from military service.

FINDINGS

- ◆ A substantial number of servicemembers have significant financial problems that distract them from their military duties, impose costs on the Services, and reduce the likelihood of a successful transition to civilian life.
- ◆ The Services now wait until after financial problems have become serious before requiring personal financial counseling.

²⁴¹RAND, *Financial Management Problems Among Enlisted Personnel*, December 1997, pp. 8-9

²⁴²White Paper, Department of Defense, Family Policy Office, *Personal Financial Management Assistance Program*.

²⁴³RAND, *Financial Management of Naval Personnel: Comments on a Recent Military Family Institute Report*, February 1998, p.1.

- ◆ Personal financial management counseling provided to all uniformed personnel early in their careers and updated on a regular basis would reduce the incidence of serious financial problems. Reduced financial problems would increase the effectiveness of military personnel, increase their chances for a successful transition, and reduce costs for the Services.

RECOMMENDATIONS

That DoD require the Services to provide personal financial management counseling to all military personnel within the first 180 days of service and require attendance at follow-up sessions every year for the first four years of military service. Courses should be available to spouses to the maximum extent practical. There must be a special focus on providing supplemental materials electronically. Instructors must be certified financial counselors.

BUDGET IMPLICATIONS - ISSUE IV.E

None

Underlying Assumptions

- ◆ DoD plans to implement a financial management program in FY 1999.
- ◆ Maintenance costs are negligible.
- ◆ Reduced personnel administration cost and increased productivity result.

ISSUE IV.F - TERMINATE THE PERSIAN GULF WAR FOR VETERANS' BENEFITS PURPOSES

Should persons joining the military today, and their survivors, be entitled to benefits explicitly designated for veterans of “wartime” service?

DISCUSSION

Background

Certain VA benefits, such as nonservice-connected disability pensions, are available only to veterans who serve during statutorily defined periods of war. For purposes of those benefits, the term “Persian Gulf War” means the period beginning on August 2, 1990 (the date Iraq invaded Kuwait), and ending on a date prescribed by Presidential proclamation or by law.²⁴⁴

The cease-fire in the Persian Gulf War took effect on February 28, 1991, although there was fighting through March 2, 1991. However, neither Congress nor the President has terminated this period of war for benefits purposes. Individuals who enter on active duty today are still eligible for benefits reserved for veterans with wartime service. This situation will continue until either the President or Congress takes the action necessary to terminate the Persian Gulf War as a statutory period of wartime service.

Analysis

All other periods of war in the Nation’s history have been assigned termination dates, generally a reasonable period after the termination of hostilities. For example, the ending date of World War II, for veterans’ benefits purposes, is December 31, 1946, approximately 16 months after Japan’s formal surrender on September 2, 1945. The ending date for the Korean conflict is January 31, 1955; -approximately 18 months after the armistice signed on July 27, 1953.

Continuing a period of war has budgetary consequences. Veterans who serve during a period of war and their survivors are eligible for nonservice-connected disability and survivor’s pensions. VA currently estimates 5-year expenditures of \$22 million for pensions to Persian Gulf War veterans (\$20 million) and their survivors (\$2 million). VA notes that these costs will increase as Persian Gulf War veterans grow older. The number of employees needed to process additional pension cases could be significant.

There are also issues of equity. Continuing a statutory wartime period at a time when the Nation is not at war means that veterans with service only during a time of peace are entitled to the same benefits as those who served during a period of hostilities. Providing wartime benefits to peacetime veterans devalues the service of those veterans who actually served during a time of war.

²⁴⁴. 38 USC § 101 (33)

FINDINGS

- ◆ Period-of-war designations for purposes of veterans' benefits should be consistent, and limited to periods of actual hostilities.
- ◆ Contemporary military service, years after the cessation of hostilities in the Persian Gulf, is not comparable to service during a period of hostilities.

RECOMMENDATIONS

That Congress terminate the current designation of the wartime period by amending section 101(33) of title 38, U.S.C., to declare February 28, 1993 (2 years after the end of hostilities) as the ending date of the 1990-1991 Persian Gulf War. Those affected by this legislation who, prior to the date of enactment, filed claims for benefits that require wartime service would continue to be eligible for benefits awarded as a result of those claims.

BUDGET IMPLICATIONS - ISSUE IV.F

1st-year savings.....\$6 million
 5-year cumulative savings.....\$51 million

Underlying Assumptions

- ◆ Average costs and current beneficiaries derived from VA's FY 1999 budget.
- ◆ Pension cost expected to increase in the outyears as beneficiaries age.
- ◆ Accessions to the VA rolls from the Persian Gulf universe stop in FY 1994.
- ◆ Average accession to the veteran rolls is 226,000 per year.
- ◆ Veterans are 84 percent of beneficiaries and survivors 16 percent.
- ◆ Revised Persian Gulf veterans universe is the sum of accessions between August 1990 and February 1993.
- ◆ Savings are overstated because they include individuals currently receiving benefits that would otherwise be part of the "dequalified" universe due to the retroactive effective date.

CHAPTER V – ORGANIZATIONAL STRUCTURE

OVERVIEW

Although Congress directed the Commission to evaluate the organizational structure of various federal departments and agencies providing services to members and veterans of the Armed Forces, the Commission's deliberations centered on the recipients of those services – the men and women who are serving or who have served their country in uniform. The Departments of Defense, Veterans Affairs, and Labor administer the programs at issue, but it is through the eyes of the beneficiaries, not the lenses of the programs nor the structures of the Departments, that the Commission believed it could best review program adequacy and effectiveness.

A servicemember or veteran should never hear the words “that’s not my department” in response to a request for service from the government he or she served.

The men and women who serve in the Armed Forces swear allegiance to one Nation, indivisible. Similarly, when they turn to that grateful Nation for assistance, they should see only one Federal Government, not many Departments nor a myriad of programs and offices. A servicemember or veteran should never hear the words “that’s not my department” in response to a request for service from

the government he or she served.

Veterans begin their exposure to the departments and the programs that serve them while they are on active duty and later continue that exposure when they make their transition to civilian life. The Commission believes that this transition must be truly seamless to be effective. The line dividing servicemembers' and veterans' programs and departments must be transparent when viewed through the eyes of their beneficiaries, if such a line must exist at all.

Healthcare is one of the most critical issues facing servicemembers making the transition to civilian life. For most servicemembers, civilian employment provides a healthcare benefit package. However, for disabled veterans a successful transition to civilian life requires a successful transition from the DoD healthcare system to VA. Commission recommendations build on the record of sharing created by the two departments and propose that sharing become the foundation for a partnership with a seamless and transparent boundary between the partners.

The Commission believes that a healthcare partnership is critical, not just for transitioning servicemembers, but also for all veterans, active-duty servicemembers, and their families. Both the DoD and VA healthcare systems face the challenge of adapting to changing healthcare practices, an evolving patient population, infrastructure built for another era, and increasing healthcare costs in an era of severe budget pressure. Both systems are unique and irreplaceable national resources with missions critical to the Nation and its citizens.

The Commission believes that neither system can be sustained as it is in the current budget climate and that, although the two systems have made great strides in establishing a cooperative relationship, they must move towards an even closer partnership if they are to continue to succeed in their missions. A true partnership between the Departments would allow them to continue to provide quality healthcare to the largest possible number of beneficiaries by maximizing the return on their human and physical resources. A partnership between the Departments is necessary if they are to provide their beneficiaries with seamless access to a full continuum of healthcare services.

The Commission does not propose a merger of the two systems. However, it strongly believes that a true partnership would be better achieved by providing the leaders of the two Departments with accurate and timely information concerning their own operations and facilities and the healthcare needs of their beneficiaries. That information, combined with an organizational environment within which the leaders and providers of the two Departments can identify for themselves the opportunities for cooperation and sharing, would enable and encourage the departments to create an effective partnership on their own, taking advantage of the unique resources and strengths that each Department brings to the table. Commission recommendations for procurement of a common information technology system, adoption of a common cost accounting system, a joint policy staff, and a unified budget and funding process ensure that DoD and VA leaders have that information and can make decisions in such an environment.

VA's VBA provides veterans, including transitioning veterans, with many of the most important benefits available to assist their transition. The field structure of VBA regional offices established for administering those benefits is a legacy of the organizational structure that grew out of the need to serve returning veterans from World War II.

VBA's communications and information technology systems are out of date and hamper its attempts to provide veterans with high-quality service. Similarly, VBA business practices often confuse veterans and impede VBA service. The Commission knows of only two reviews of that structure from outside of VA over the last half century. Since that structure was put in place, there have been quantum leaps in communications and electronic technology, significant shifts in the location of the veteran population, and material changes in the economy and society within which all veterans live. Absent significant changes by the Veterans Benefits Administration over the next two years, the Commission believes another outside review must be conducted to ensure that VBA's organizational structure, business practices, information technology, and the physical infrastructure supporting them match the needs of the veterans it serves.

Information technology is one of the most important keys available to unlock the bureaucratic barriers separating the Departments and transform the barriers into boundaries transparent to beneficiaries' eyes. Both the Departments have extensive IT resources. The Commission proposes recommendations to improve integration of these resources.

ISSUE V.A - RESTRUCTURE BUDGET, APPROPRIATIONS, AND DoD/VA POLICY PROCESSES TO INCREASE HEALTHCARE DELIVERY

What organizational or legislative changes in the DoD and VA healthcare systems would improve quality and access to care for the beneficiaries of the two systems?

DISCUSSION

Background

Mission

The DoD health care system helps ensure the Nation's security by providing health support for the full range of military deployments and sustains the health of members of the Armed Forces, their families, and others to advance national security interests. In addition, DoD provides healthcare to military retirees and their families on a space-available basis. The DoD healthcare system has 8.36 million eligible beneficiaries. The system cares for 6.2 million beneficiaries with 144,000 healthcare personnel and operates 115 hospitals and 471 ambulatory clinics. The DoD healthcare budget is \$15.7 billion.²⁴⁵

Dr. Kenneth Kizer, VA Undersecretary for Health, stated that VHA has four primary missions: health care for veterans, training for healthcare professionals, research, and emergency management. Although 26 million veterans are eligible for care, only 3.1 million use the VA system annually. VA has 184,800 personnel who operate 173 hospitals, approximately 600 ambulatory care and community-based outpatient clinics, 131 nursing homes, and 40 domiciliaries. The VA healthcare budget is \$17.9 billion.²⁴⁶

Beneficiaries

The beneficiaries of each system are designated by law in title 10 and title 38 of the United States Code. Neither system has the funding to fully meet the demands of its beneficiary populations. As a result, each system provides care to beneficiaries in accordance with statutory priorities.

DoD's first priority is active-duty servicemembers, followed by TRICARE-enrolled beneficiaries. TRICARE enrollment is available to servicemembers and their families, as well as retirees and their families. Beneficiaries more than 65 years of age are not eligible for TRICARE (just as they were ineligible for CHAMPUS). Beneficiaries at age 65 are eligible for Medicare and receive direct care only on a space-available within the DoD system.

²⁴⁵Presentation by Dr. Edward Martin, Acting Assistant Secretary of Defense for Health Affairs, Healthcare Advisory Group Report, p. A-6.

²⁴⁶Presentation by Dr. Kenneth Kizer, VA Under Secretary for Health, Healthcare Advisory Group Report, p. A-17.

VA's priorities are set by the Veterans' Health Care Eligibility Reform Act of 1996,²⁴⁷ which made comprehensive medical services available to veterans to the extent that funds are available. In order to manage demand, VA must limit care to those veterans who have enrolled for care, with the following priorities for enrollment:

1. Veterans with service-connected disabilities of 50 percent or more.
2. Veterans with service-connected disabilities rated at 30 or 40 percent.
3. Former prisoners of war and veterans with service-connected disabilities rated at 10 or 20 percent.
4. Catastrophically disabled veterans and veterans receiving increased nonservice-connected disability pensions because they are housebound or need the aid and attendance of another person to accomplish the activities of daily life.
5. Veterans unable to defray the cost of medical care.
6. All other veterans in the so-called "core group," including veterans of World War I and veterans with priority of care based on presumed environmental exposure.
7. All other veterans.

The eligible populations of both systems are changing. In 1997, GAO reported that after the post-Cold War downsizing of the military, only 48 percent of the beneficiaries of the DoD military health system were active-duty servicemembers or their family members. The remainder were retirees and their eligible family members. As of 1997, 29 percent of military retirees are over the age of 65, and the Medicare-eligible percentage of the population was growing about 5 percent a year.²⁴⁸ VA hospitals serve a veteran population that has been steadily declining since 1980 and by the end of the next decade will be only two-thirds of what it was at its peak.²⁴⁹

Downsizing of systems

DoD staff, beds, and MTFs have dramatically decreased since 1990. Military medical staff declined 15 percent, and civilian medical staff declined by 22 percent. Staffed beds decreased by more than 40 percent and the number of MTFs decreased 58 percent.²⁵⁰

The VA is also in transition. VA replaced its four-region system with 22 VISNs and decentralized management authority and responsibility to the VISN directors. VA staffing has dropped 11 percent in the last 3 years, from 206,600 full time equivalent (FTE) to 184,800 FTEs, including 13,900 physicians and a large number of nurses and allied health professionals.²⁵¹ Although some of VA's Medical Centers are underutilized and some facilities have had significant mission changes, none have been closed. VA has not had an independent process analogous to DoD's Base Realignment and Closure (BRAC) Commission²⁵² to assist it in eliminating redundant facilities.

²⁴⁷Public Law 104-262.

²⁴⁸GAO, *Military Retirees' Health Care: Costs and Other Implications of Options to Enhance Older Retirees' Benefits*, HEHS-97-134, June 1997, pp. 27-28.

²⁴⁹GAO, *VA Hospitals: Issues and Challenges for the Future*, HEHS-98-32, April 1998, p. 7.

²⁵⁰Presentation by Dr. Edward Martin, Health Affairs, Healthcare Advisory Group Report, p. A-6.

²⁵¹Presentation by Dr. Kenneth Kizer, Healthcare Advisory Group Report, p. A-17.

²⁵²BRAC was a Congressionally directed process to close military bases no longer needed by DoD.

Changes in healthcare delivery

In the early 1990's, the military health system started moving towards managed care, a regionally integrated delivery system, capitation-based resourcing, and both domestic and international TRICARE agreements (managed-care support contracts).

The military health system and civilian healthcare systems have aggressively shifted patients from an inpatient to outpatient status and have closed facilities. In recent years, VA has begun to move in that direction.

Because of the cost of maintaining large inpatient facilities as the number of inpatients declines, the economic viability of VA medical centers has diminished. In addition, the low daily inpatient census at some VA facilities significantly raises the average cost of care per patient.^{253,68} Downsizing and the transition to outpatient-based care in both military and VA healthcare systems create problems with physical plant and infrastructure. Although neither system plans to construct new inpatient facilities, plans for managing the existing aging infrastructure are unclear. There are significant redundancies in physical plant/infrastructure (multiple VA or DoD facilities) in some locations. In September 1998, Health Affairs proposed consolidating some military Medical Centers and downgrading others.²⁵⁴

TRICARE

TRICARE is the Defense Department's regional managed health care program for service beneficiaries. It provides beneficiaries with three options: TRICARE Prime (much like a civilian health maintenance organization), TRICARE Extra (similar to civilian preferred provider organizations), and TRICARE Standard (fee-for-service with beneficiary co-payments).

DoD's managed care support contracts (TRICARE) are based on the geographical boundaries of the DoD regions. Proposals to increase sharing between DoD and VA through TRICARE are complicated by the fact that the 12 DoD regions and the 22 VA VISNs do not share common boundaries. Congruent boundaries would facilitate incorporating VA beneficiaries into the existing contracts.

The number of facilities available to DoD beneficiaries for treatment without a co-payment would increase if TRICARE contracts recognized VA medical centers (VAMCs) as equivalent to military treatment facilities. VA would then have the option to provide care, with reimbursement from the contractor, if VA had the capacity to provide the needed service. Currently, VA must compete with civilian health care organizations to provide care and DoD beneficiaries who receive their care from the VA are responsible for a co-payment for services furnished.²⁵⁵

^{253,68} U.S. General Accounting Office, HEHS - 98-32, "VA Hospitals: Issues and Challenges for the Future," April 1998, pp. 58, 63.

²⁵⁴ "To merge or not to merge, Pentagon considers consolidating top military hospitals", Navy Times, September 7, 1998, p. 8.

²⁵⁵ Presentations by Admiral Carroto and Ms. Diana Tabler, Healthcare Advisory Group Report, pp. C-3 and I-7.

Sharing Between DoD and VA

The Commission believes that resource sharing between DoD and VA offers significant opportunities for improving access to beneficiaries and increasing cost-effectiveness in providing care.

Sharing between DoD and VA now ranges from shared services negotiated on a local basis to headquarters-level decisions to develop and jointly operate medical facilities. Sharing agreements are developed locally. In 1984, when Public Law 97-174 was enacted to encourage sharing between the Departments, 102 DoD and VA facilities had sharing agreements. By 1997, 420 sharing agreements existed. Between 1992 and 1997, shared services grew from 3,000 to more than 6,000 including major medical and surgical services, laundry, blood, laboratory, and specialty care services. Shared services are often bartered to eliminate the difficulties of transferring funds from one system to the other. Sharing is dependent on one facility having excess capacity in a service necessary to make that service available to another facility.²⁵⁶

Proposals for jointly operated medical centers are developed at the headquarters level. Five joint ventures are in operation in California, New Mexico, Nevada, Texas, and Oklahoma, several more are planned. DoD and VA officials are exploring combining services in order to offer care that alone, neither can offer in a cost-effective manner.

From Sharing to Partnership

DoD/VA healthcare leadership established the DoD-VA Executive Committee to expand the coordination and integration of services in the two systems. The committee meets quarterly, rotating the location of the meeting between the Pentagon and VA headquarters in Washington, DC.

Additional leadership initiatives include standardization of separation physicals, joint procurement of the G-CPR, and common clinical guidelines. VA provides prosthetics and sexual trauma treatment for DoD because of its expertise in these areas.

Barriers to Partnership

Dr. Edward Martin, former Assistant Secretary of Defense (Health Affairs) identified differing administrative, budgetary, and personnel systems as barriers to sharing between the Departments. In addition, Dr. Martin identified each uniformed service's desire to have its own specific providers as a barrier.²⁵⁷

Dr. Kizer identified national traditions and VA corporate culture as barriers to expanded sharing. He is attempting to change the mind set that VA care can be provided only by the VA.

During Commission site visits, staff learned that

²⁵⁶Based upon recurring comments received by Healthcare Advisory Group staff during site visits, Healthcare Advisory Group Report, Appendix: O, P, S, U, and W.

²⁵⁷Presentation by Dr. Edward Martin, Healthcare Advisory Group Report, p. A-16.

CHAPTER V – ORGANIZATIONAL STRUCTURE

- ◆ When a VAMC requested to become a DoD Specialized Treatment Service (STS) site, the paperwork went from the VA VISN to the DoD Region Lead Agent, who concurred. Then DoD Health Affairs determined the Lead Agent did not have the authority to concur. DoD provided no response to the proposal for more than a year.
- ◆ The budgetary systems are so different that in North Carolina, DoD and VA hospitals barter services rather than exchange dollars.
- ◆ At the joint venture sites, differing personnel management standards result in personnel in similar positions being paid at different rates, depending upon which Department hired them.

A recurring theme during site visits and testimony to the Healthcare Advisory Group by hospital commanders was the need to retain a portion of resources saved through sharing agreements or staff innovation at the local facilities rather than returning all the funds to Health Affairs.

Differing catchment areas for DoD and VA facilities serve as yet another barrier to increased sharing.

Differences in statutory eligibility rules and priorities for beneficiaries serve as barriers to sharing because the two systems cannot routinely provide care for one another's beneficiaries.

Although a significant number of sharing agreements exist, these barriers may be part of the reason that the Departments project that only \$62 million of their \$33 billion combined budgets will be transferred between departments as the result of sharing agreements in FY 2002.

Analysis

The Commission believes that healthcare is an important transition benefit and that alternate organizational structures offer significant opportunities for improving the delivery of healthcare services for all of the beneficiaries of the two Departments, including transitioning servicemembers and veterans.

The Nation has, in the DoD and VA healthcare systems, two parallel systems performing nearly identical missions (providing high-quality healthcare for eligible beneficiaries). The beneficiaries have a common bond in their uniformed service (or in their relationship to someone who serves, or has served, in uniform). Both systems are financially constrained. They have more potential patients than they have resources for treatment. For beneficiaries of both systems, access to direct care is limited by geography. Although DoD's TRICARE system provides access to care for beneficiaries who do not live near a DoD facility, VA's beneficiaries generally must travel to a VA facility to obtain VA care.

However, there are also distinctions between the healthcare missions of the two Departments. The DoD healthcare system supports worldwide military operations and must be prepared to respond to contingencies, up to and including war. In addition, the DoD healthcare system provides care to family members. This means that, unlike the primarily adult male population served by VA, DoD cares for large numbers of women and children. VHA has as its primary mission the treatment of service-connected disabilities. In practice, VHA also provides specialized services such as treatment for spinal cord dysfunction and serves as a social safety net for veterans with poor access to other care providers.

The law encourages cooperation between the Departments. There have been notable efforts to establish sharing agreements drawing on the strengths of each Department, but considered in the context of the total beneficiary population and the extent of the two systems, sharing remains limited and the pace towards greater partnership remains slow. Although the deliberate pace is understandable in terms of differing missions and cultures embodied in discrete organizations unaccustomed to modifying their behavior in response to the needs or desires of organizations or constituencies not their own, the slow pace towards partnership represents lost opportunities to increase services for beneficiaries and to expand the impact of the limited resources available to each system.

A joint staff would create an environment in which the two Departments could identify for themselves the opportunities for greater partnership.

The Commission believes that cooperation, evolving into a partnership between the Departments, would allow them to better serve their beneficiaries by making their combined resources accessible to all beneficiaries and allowing the Departments to realize efficiencies from more efficient utilization of their limited resources.

The Commission believes that progress towards a partnership will be enhanced as the Departments develop common management and financial information systems that provide accurate, current, and comparable information concerning operations and costs, as recommended elsewhere in this report. The Departments, and the organizations controlling their budgets, will then be able to work together to identify for themselves opportunities for improving services for beneficiaries and ways to increase the amount of care that can be provided with available resources.

For example, questions as to whether DoD and VA facilities are synergistic, complementary, or redundant are unlikely to be asked when budget preparation is compartmentalized, funds are separately appropriated, and operations are independently implemented.

Thus, the Commission believes that the first step towards realizing the gains of greater partnership will be taken in the budget examination process at the Office of Management and Budget (OMB). The next steps will occur when the appropriations process in the Congress begins to look at both systems through the same lens when evaluating the healthcare needs of beneficiaries of the two systems and the efforts of the two Departments to meet those needs.

For example, under the current structure, different Appropriations subcommittees in Congress consider requests for clinical additions to VA and DoD Medical Centers, even if those medical centers serve the same community and together offer facilities adequate to meet the needs of the community. The Commission recognizes the difficulty of restructuring the jurisdictions of congressional subcommittees but believes that the gains from such a reform would be substantial.

The Commission believes that joint procurement of information technology (both hardware and software), pharmaceutical and medical/surgical supplies, as well as equipment, would result in substantial savings. In addition, the migration to common systems and equipment would enhance opportunities for improved service and more cost-effective operation through partnership.

Similarly, policy development by a joint staff would result in greater familiarity in each Department with the opportunities to be found in the other. A joint staff would create an environment in which the two Departments could identify for themselves the opportunities for greater partnership.

The Commission believes that the bureaucratic boundaries separating the Departments should be transparent to Americans who begin their service to the country under the jurisdiction of one Department and then make their transition to the jurisdiction of the other. They did not serve departments or administrations. They served one Nation under one government. When that government provides healthcare, there should be only one place to which they (and their eligible family members) must look for the care they need.

The Commission believes that more efficient operation will result in increased provision of healthcare services to beneficiaries. Although this partnership will not occur overnight, the recommendations will lead to identification of redundancy and inefficiencies between the two systems. The Commission projects that cost avoidance and savings will increase the dollars available for services to beneficiaries up to 1 percent over the next 5 years.

FINDINGS

- ◆ The potential demand for care by the beneficiaries of each system exceeds the amount of care that can be provided by either system with the resources available.
- ◆ The pressures of increasing costs of medical care, maintenance of duplicative and underutilized equipment, and changes in the beneficiary populations, combined with severe budget constraints, will place DoD and VA beneficiaries at risk unless the Departments devise ways to provide more care with existing or reduced resources.
- ◆ Partnering between the two systems offers a way to utilize limited resources more cost effectively and to thereby increase the number of beneficiaries served.
- ◆ Budget and funding decisions made by OMB and Congress for DoD and VA healthcare systems are made independently of each other and without regard to the other system. These uncoordinated decisions both drive and constrain the operational decisions of the leadership of the two Departments and impair, rather than enhance, partnership.
- ◆ Senior leadership in both Departments support the principle of sharing, but day-to-day decisions are the product of separate staffs working independently, without taking into account the needs or the resources of the other Department. Partnership between the Departments would be enhanced if major policy decisions were made jointly.
- ◆ Both systems have beneficiaries who could more conveniently obtain care at facilities operated by the other system. Both systems have facilities that could care for beneficiaries of the other, on a reimbursable basis, without compromising their primary missions.
- ◆ Both systems have facilities that are no longer well placed when matched against potential workload. There are geographical areas with significant redundancies in physical plant/infrastructure. Maintaining excess capacity consumes resources that could be used to increase services, but political and interest group pressures make major changes in infrastructure difficult to achieve.

- ◆ VA Medical Centers offer opportunities to provide convenient and cost-effective care to DoD TRICARE beneficiaries. Revenue for the care of those beneficiaries could help VA maintain the patient load necessary to sustain specialized services.
- ◆ The non-congruent boundaries of the 12 DoD regions and the 22 VISNs create barriers to expanding the partnership.

RECOMMENDATIONS

Set the Stage for Partnership

- ◆ That OMB place its DoD and VA analysts under a single Program Associate Director.
- ◆ That Congress unify funding responsibility for both DoD and VA healthcare under the jurisdiction of one appropriations subcommittee.
- ◆ That Congress enact legislation requiring the Assistant Secretary of Defense (Health Affairs) and the VA Undersecretary of Health to establish a unified, joint policy staff (e.g. for resource management, strategic planning, and information technology management) that would operate under the guiding principles identified by the Healthcare Advisory Group.²⁵⁸

Expand Partnering

- ◆ That Congress enact legislation changing eligibility criteria so beneficiaries can receive care from either system and reimbursement is provided for that care.

Realign Infrastructure

- ◆ That Congress commission a study to review the healthcare delivery systems on a geographic basis including the availability of joint operations and the physical infrastructure of the two Departments.
- ◆ If the study warrants, Congress should establish a second commission to examine the operations and infrastructure needs of the healthcare delivery systems of the two Departments, considered jointly, including the requirement that the two Departments, in conjunction with national healthcare resources, retain the ability to respond to the medical needs of a worst-case wartime contingency. The commission would take recommendations for action from the Departments and formulate recommendations for conforming operations and physical infrastructure to the demand for care from eligible beneficiaries. The commission would make its recommendation to the President, who would either reject or forward the recommendation to Congress, which could only accept or reject the recommendation in total under procedures for expedited consideration.

²⁵⁸. Healthcare Advisory Group Report, June 11, 1998, p. 22.

Expand TRICARE

- ◆ That Congress enact legislation requiring DoD, when renewing TRICARE contracts, to recognize appropriate VA Medical Centers as MTF equivalents when the VAMCs can treat TRICARE patients at or below the cost of equivalent care in non-government facilities without detriment to veteran's care.
- ◆ That Congress enact legislation requiring VA and DoD to review region and VISN boundaries to make them congruent.

BUDGET IMPLICATIONS - ISSUE V.A

1st-year costs..... \$ 3 million
5-year cumulative savings \$1,091 million

Underlying Assumptions

- ◆ Set the stage for partnership:
 - ❖ Space constraints at the Pentagon and VA Central Office would require DoD and VA to relocate staff to a new site.
 - ❖ Relocation cost averages \$8 per square foot.
 - ❖ VA relocates 412 FTEE and DoD relocates 350 FTEE.
 - ❖ Average annual Washington metro area rent is \$37.50 per square foot.
 - ❖ Rent is inflated at 3 percent per year.
 - ❖ Savings factored at 0 percent in years 1 and 2, 1 percent in years 3, 4 and 5 of total DoD and VA healthcare budgets.
 - ❖ FY 1999 budgets inflated 3 percent in outyears.
- ◆ Expand partnering:
 - ❖ Costs resulting from increased utilization are offset by savings to TRICARE.
 - ❖ Fixed number of treatment facilities restricts growth in the number of users as care is only provided on a resource-available basis.
- ◆ Realign infrastructure:
 - ❖ Recommended study can be completed using existing resources.
 - ❖ Costs/savings resulting from implementation of study's findings cannot be determined until study is complete.
 - ❖ There is the potential for substantial long-term savings.
- ◆ Expand TRICARE:
 - ❖ Revenues of increased patronage offset costs associated with increased utilization of VA facilities.
 - ❖ Potential costs include the need to make certain VA/DoD information systems are compatible.

ISSUE V.B - MODERNIZE VBA'S BENEFITS DELIVERY PROCESSES AND INFRASTRUCTURE

How can VBA improve services to veterans by reengineering and restructuring its business processes and the information technology and infrastructure that supports them?

DISCUSSION

Background

The VBA administers veterans' programs for compensation and pension, vocational rehabilitation, education, home loan guarantees, and life insurance. Benefit decisions are made, and veterans interact with VBA, in a network of regional offices (ROs). Currently, VBA field operations are managed by nine Service Delivery Networks (SDNs) overseeing 57 ROs. Program policy is controlled from VA Central Office in Washington.

Decisions are based on elaborate procedures for implementing complex regulations. VA data show that errors occur at a rate of 36 percent and that 42 percent of claimants are dissatisfied with compensation and pension services.²⁵⁹ The adjudication and appeals process involves too many hand-offs at the initial adjudication level and lacks clear and definitive rules that can be fairly and efficiently applied to the processing of the vast majority of cases. According to a study by the National Academy of Public Administration (NAPA), VBA's attempts at business process reengineering are a history of starts, stops, and failure to follow through.²⁶⁰

VBA has been unable to resolve its problems by updating its information management resources. According to the NAPA report, VBA has not achieved its modernization goals because it has invested prematurely in overly risky strategies, plans, and programs. VBA management of information management programs and projects is fragmented to the extent that virtually no one is accountable for project performance and delivery of an operational system capability. NAPA concluded that VETSNET, VBA's proposed solution, is not a viable answer to VBA's modernization goal.²⁶¹

VBA also has been criticized for not being easily accessible to the veterans it serves. Many regional offices are not located in or near population centers. VBA has no service, or itinerant service, at most locations where servicemembers are separated from active duty. Many veterans report that they cannot get through to VA by telephone.

²⁵⁹Briefing to the Commission by Under Secretary Joseph Thompson, September 9, 1998.

²⁶⁰National Academy of Public Administration (NAPA), *Management of Compensation and Pension Benefits Claim Processes for Veterans* August 1997, p. 59.

²⁶¹NAPA, p. 81.

CHAPTER V – ORGANIZATIONAL STRUCTURE

Many successful private sector organizations that depend on interaction with the public for success have devised efficient decision-making processes that they implement in efficiently sized and organized units. These organizations use telecommunications, supported by reliable access to real-time databases, to sustain a high level of accessibility and service to their customers.²⁶²

VBA continues to operate a paper-based system dispersed to 57 ROs. Some of the RO's may be so small that they unnecessarily consume personnel resources with disproportionately large supervisory overhead. Excluding stations with insurance functions, ROs have staffs as large as 524 and as small as 18.

Today, more than 50 years after the original structure and processes were devised and put into place, a mismatch appears to exist between VBA's mission on one hand and the processes it uses to resolve claims and the deployment of its resources on the other.

The Commission applauds VBA for the strategic approach it has taken in recent years. For example, VBA's Education Service has consolidated its administration of the MGIB into four locations, and the Loan Guaranty Service has consolidated its loan processing and loan servicing functions into 9 Regional Loan Centers.

However, much more can be done. For example, no effort has been made to consolidate the adjudication of compensation claims. VBA has a mixed record of success in implementing reorganization proposals. The December 1995 "Report of the VBA Field-Restructuring Task Force" recommended some consolidation of compensation and pension functions. Specifically, compensation and pension processing transferred from the Anchorage, Honolulu, Ft. Harrison, and Wilmington ROs. Pension was to be transferred from New York; Washington, D.C.; Los Angeles; and Oakland ROs. These proposals were abandoned because of political opposition from interested parties.

Analysis

To meet successfully the needs of servicemembers and veterans in the next century, VBA should

- ◆ Identify desired program outcomes.
- ◆ Develop the business processes needed to achieve those outcomes.
- ◆ Acquire the information management systems and technology necessary to implement those processes.
- ◆ Shape its human and physical resources to support those processes.

VBA's mission should drive its process and resource decisions, rather than allowing its legacy processes and infrastructure to constrain its mission decisions. VBA should define itself by the quality of, and access to, its services, not by the ROs it maintains and the processes it has inherited.

If VBA is to put veterans first, it must adopt processes that are clear and direct enough to be easily understood by veterans and employees alike. It must then create information management systems and technology necessary to put those processes into effect. VBA also

²⁶²Commission Visit with CEO, United Services Automobile Association (USAA) June 22, 1998, and USAA fact sheet; *Information Services*, March 1997, San Antonio, Texas.

needs to provide veterans with seamless and transparent access to VBA services without regard to where they live. Failure to adapt to changes in business practices, information management, and communications will leave VBA poorly positioned to serve veterans.

VBA faces significant challenges in preparing to deliver benefits to the servicemembers and veterans of the 21st century. VBA must develop streamlined and efficient processes to replace business practices that are merely adaptations of traditional paper-based processes implemented through aged computer systems and applications and administered through a network of benefits-processing offices at 57 sites across the Nation, in Puerto Rico, and the Philippines. Reforms in VBA processes must be developed in a manner perceived by program stakeholders, and Congress, as objective and in veterans' best interests. In addition, proposed reforms must offer the prospect of accurate decisions on veterans' claims if they are not to founder on stakeholder or Congressional opposition to specific facets of the proposal.

The Commission acknowledges VBA's May 29, 1998, publication of *Roadmap to Excellence*. This document is designed "to provide a structure that will facilitate future changes." It focuses on "implementation of critically important near-term actions to overcome existing obstacles to future improvements."²⁶³ The Commission applauds VBA for its initiative in looking ahead.

The Commission believes that VBA leadership understands the outcomes that are necessary to achieve the level of service that veterans have earned by reason of their military service. The Commission also believes that the leadership of the Department has the vision to identify the actions necessary to achieve those outcomes. However, the Commission is also aware of the difficulties inherent in implementing fundamental reform in any organization. For that reason the Commission believes that the Congress, in the form of the relevant committees, and VBA leadership should jointly identify specific outcomes and a time line to achieve those outcomes.

If the desired outcomes are not achieved, the Commission believes that an independent "blue ribbon" panel would then offer a way to develop the processes necessary to achieve VBA goals, identify the information technology necessary to bring those processes to life, and propose the organizational structure necessary to support them. The Commission has identified only two significant studies of VA's field/benefits delivery structure conducted by independent organizations external to VA in the last 50 years.^{264 265} The Commission believes that advances in information and communications technology, combined with the urgent need to modernize VBA processes and organization, make it appropriate to conduct a new, independent examination of VBA processes and identify the information technology, organizational structure, and infrastructure necessary to support those processes.

An independent panel of recognized and successful experts from the public and private sectors who are engaged in businesses or claims processing functions similar to those of VBA would be able to evaluate VBA's challenges and propose solutions that would be perceived to be based on the merits.

²⁶³The Veterans Benefits Administration *Roadmap to Excellence*, May 29, 1998, p. 13.

²⁶⁴Booz, Allen & Hamilton, *Management Survey of Activities of the Veterans Administration Nonmedical Benefits*, April 1952, pp. 63-69.

²⁶⁵Hay Associates, *Department of Veterans Benefits Organization Study of the Regional Office Structure*, October 1973, pp. 72-77.

In consultation with VBA, the proposed commission would answer five basic questions:

- (1) What are the outcomes VBA should achieve in its programs?
- (2) What processes would most efficiently and effectively attain those outcomes?
- (3) What information management and communications systems are necessary to implement those processes?
- (4) What infrastructure and organization is necessary to utilize those systems and to carry out the recommended processes?
- (5) How can VBA put those processes into effect and shape its infrastructure and organization to carry out those processes effectively?

FINDINGS

- ◆ VBA is unable to meet contemporary standards of timeliness for delivery of the veterans' benefits entrusted to it. Complex and confusing procedures for determining eligibility and deciding claims, ineffective attempts to adopt modern communications and information technology, and inefficient field organization all contribute to VBA's marginal performance. VBA's processes and organizational structure do not correspond to the needs of the veterans it serves or take advantage of the opportunities for enhanced customer service created by improvements in business processes, technology and communications.
- ◆ VBA leadership has embarked on an effort to reform VBA processes, as well as support information management systems and infrastructure. The Commission supports the intent of this reform process. However, the Commission also is aware of the mixed record of success of previous efforts to reform VBA processes and organization.
- ◆ If VBA's efforts to restructure itself are unsuccessful, an independent panel, comprised of individuals of recognized expertise and stature, and charged by Congress with the mission of identifying and proposing changes in VBA's processes, procedures, organization, and structure, would offer a mechanism to identify and spotlight the necessary reforms.

RECOMMENDATIONS

- ◆ That Congress review the reports and recommendations of the National Academy of Public Administration and the Veterans' Claims Adjudication Commission and enact legislation implementing the reforms it agrees are appropriate.
- ◆ That Congress and VA jointly agree on desired process, information management, and infrastructure outcomes for VBA's reform process and that Congress require VBA to provide regular reports on progress towards attaining those outcomes.
- ◆ If VBA has not achieved the agreed-upon outcomes in 24 months, that Congress charter an independent VBA Benefits Delivery Commission comprised of individuals from both the public and private sector with proven expertise and success in information technology, organizational design, and delivery of customer-driven services.

- ◆ The panel would assess VBA workload and processes and make recommendations for the redesign of VBA processes, information management systems, organizational structure, and infrastructure in order to best meet the needs of transitioning servicemembers, veterans, and their family members in the 21st century.
- ◆ The panel would be chartered for a term of 24 months. It would redesign processes, as well as proposing an organizational structure and infrastructure to put the redesigned processes into effect. If Congress accepted the proposal, a follow-on Commission would be appointed to monitor implementation during the succeeding 30 months. Recommendations for infrastructure location would be subject to an up or down vote by Congress.
- ◆ To insure VA input, the Secretary of Veterans Affairs would formulate and submit for the panel's consideration a recommended process redesign and a plan for implementation within 90 days of the Commission's first meeting.

BUDGET IMPLICATIONS - ISSUE V.B

None

Underlying Assumption

- ◆ Support for this initiative comes from existing agency resources.

ISSUE V.C - COORDINATE VA AND DoD INFORMATION MANAGEMENT TO IMPROVE SERVICE

How can pertinent information regarding servicemembers' transition of be exchanged more efficiently between the DoD and VA to improve the delivery of services to veterans?

DISCUSSION

Background

Quality customer service, informed decision-making, and sound strategic planning are all dependent on reliable information on veteran beneficiaries. Historically, activities within VA have responded to information demands specific to individual program needs. At any point in time, literally hundreds of ongoing information exchanges independently occur as part of VA's business. Unfortunately, fragmentation and lack of coordinated oversight compromise the effectiveness and utility of those exchanges and corrupt data quality. As a result, the VA does not have the information needed to provide timely service to those who have recently separated or retired from the Armed Forces.

The absence of effective information management impedes VA's ability to use information effectively to improve business processes. In addition, because information is not shared throughout the agency, different functions collect the same information on a veteran many times. Not only is this practice a duplication of effort, but it is also an unnecessary waste of resources and a cause of inconsistent data.

DoD has established a centralized, consolidated information management organization, the Defense Manpower Data Center (DMDC), which is responsible for maintaining a comprehensive archive of the personnel, manpower, training, and financial data collected from all of the military branches within the Department. DMDC serves as the central personnel information authority for DoD.

For the past several years, DMDC has been developing and refining a relational database that tracks those who have entered military service since 1974. This system, the Defense Enrollment Eligibility Reporting System (DEERS), was originally designed to determine eligibility for military benefits. It has been expanded to record servicemember and dependent information that DoD continuously uses. It is a person-based system that reduces replication of information within DoD and contains much of the same information that VA needs and uses in delivering services to veteran.

The quality of service VA provides to its beneficiaries could be dramatically improved with a Department-wide information management plan. Previous attempts at modernization have not considered all functions within VA. Strategic plans have not offered measurable goals or time lines for evaluating success. VA's inability to define the role of information in business processes has substantially contributed to repeated failures of previous information technology initiatives.

For example, in December 1992, VBA began an extensive three-stage modernization effort.²⁶⁶ Although the project was portrayed as a major step toward improvement, in reality it merely provided new technology to deliver the same services. It was, as is all too often the case, overly focused on enhancing information technology, as opposed to addressing much-needed information management improvements. As a result, large capital investments were made without measurable gains in service efficiency. Much of what VA does today is accomplished as it was prior to “modernization.”

Analysis

Accurate military service information is prerequisite to accurate VA benefit eligibility decisions.²⁶⁷ Seamless quality service to transitioning servicemembers and veterans is substantially dependent on a thoughtfully executed information management strategy by DoD and VA. The strategy should ensure coordinated and timely exchange of pertinent information. Much of the information needed by the VA to provide timely transition services to separating military personnel is already contained in DEERS. Time has long passed for breaking down the barriers that prevent cooperation between the two agencies. The focus of information management must shift from program control to improved service delivery.

The current level of information interaction between VA and DoD is fragmented, with

Consolidating information management and technology (IM&T) responsibility into a single entity is both feasible and efficient.

little or no coordinated oversight or management. DMDC responds to information requests by VA on an as-needed basis. VA frequently tasks DMDC with redundant information production projects that cause unnecessary duplication of effort and, in many instances, generate data that are narrowly applied and insufficiently defined or qualified. There is very little concentrated analysis of information within VA and virtually no consideration of either the global

application or the use of the data supplied by DMDC.

VA and DMDC should formalize their information business relationship. The agencies should enter into an agreement broadly encompassing all aspects of information exchange between the Departments. The recent effort to improve Gulf War population data has demonstrated that coordination between the two departments improves the quality of information in both. Focus should be on data standardization that would facilitate the use of veteran information in VA business processes. VA also needs a DMDC liaison to coordinate and manage data exchanges.

DoD created DMDC as an organization specifically responsible for Department-wide manpower information management. Because of the efficiencies DMDC brings to their personnel functions, the Services embrace the concept of centralized information management. Consolidating information management and technology (IM&T) responsibility into a single entity is both feasible and efficient. A centralized VA IM&T office would better

²⁶⁶. GAO, *Veterans Benefits Administration: Redirected Modernization Shows Promise*, Report AIMD-94-26, December 1993.

²⁶⁷. 38 U.S.C. § 1, sec. 101-112.

manage administration or program-level projects in accord with established Department strategic objectives. This office also would directly oversee all information exchange processes throughout the Department. VA should capitalize on the information management experience of DMDC and related lessons learned to develop future information management strategies.

FINDINGS

- ◆ VA has managed its information business from a technically oriented, program-specific perspective. Development of information systems is fragmented among multiple administrations and program offices with little or no authoritative or coordinated oversight.
- ◆ VA program management is preoccupied with program control, thereby impeding effective intraagency and inter-agency cooperation. This “stovepipe” approach to business hinders efforts to develop effective Department-wide strategic planning and has led to failures in previous IM&T initiatives.
- ◆ DoD has established a centralized, consolidated information management organization. It is establishing a new person-based relational database for DEERS that contains data needed by VA on servicemembers and dependents, as well as recently separated veterans. The flexibility of this system would allow VA to incorporate DMDC data directly into its business processes.

RECOMMENDATIONS

That VA and DoD:

- ◆ Establish a formal information business relationship. The relationship should broadly encompass all aspects of information exchange and result in an agreement addressing issues such as compliance with the requirements of Privacy Act and Freedom of Information statutes, information security, service and development costs, data validation mechanisms, data standardization, and technology sharing.
- ◆ Create a VA organizational element within DMDC specifically responsible for coordinating VA and DMDC business processes. The new organization would be responsible for maximum utilization of shared information, creation of technical links to support the timely exchange of information, and establishment of validation procedures to ensure information quality.

BUDGET IMPLICATIONS - ISSUE V.C

None

Underlying Assumption

- ◆ Support for this initiative comes from existing staff resources in both agencies.

CHAPTER VI - GENERAL COMMENTS AND OBSERVATIONS

Quadrennial Review

Benefits and services assisting servicemembers transition to civilian life are part of a complex tapestry of programs and services that are administered by many different federal departments and serve many different purposes. Veterans benefits assist the readjustment of former servicemembers to civilian life. They serve as mitigation for the hardships of military service. They are part of a servicemember's remuneration package, and they serve as incentives for enlistment or retention. Each of these functions is affected by changes in departments that administer benefits, by changes in other programs provided by the Federal Government, and by changes in the country's population, its society, and in the institutions serving society and its citizens.

The Commission believes that Congress, and the servicemembers, veterans, and citizens served by Congress, would benefit from a periodic review of not only servicemember and veteran transition issues, but also issues related to the recruitment and retention of military personnel, as well as issues cutting across agency boundaries. Such a review could ensure that programs and services are appropriate for the changing demographics of the servicemember and veteran population. For example, the proportion of veterans who are women, now 4 percent will increase over time until it corresponds to the portion of servicemembers who are women, which is approximately 15 percent. Women have unique healthcare needs and special attention must be provided to their requirements.

The Commission suggests that Congress consider recommending the establishment of a panel that would meet on a quadrennial basis to evaluate progress made on past recommendations, monitor existing programs, and make new recommendations.

Disability Compensation

The Commission did not review the VA's disability compensation program, the Service's disability retirement and separation pay systems, or the interaction between those programs and other disability programs such as Social Security Disability. However, the Commission notes that these programs are of critical importance to the transition and subsequent lives of servicemembers who become disabled or ill while on active duty.

Commissioners are aware of workload projections predicting a continued high level of claims activity based on the fact that VA disability claims are filed by eight of ten military retirees and one of five separatees, as well as on the continuing large number of repeat claims. The task of managing that workload appears to be inconsistent with budget projections calling for a 26-percent reduction in the number of VA claims processing staff in the fiscal years between 1998 and 2002.²⁶⁸

²⁶⁸National Academy of Public Administration, *Management of Compensation and Pension Benefits Claim Processes*, August 1997, p. xix.

CHAPTER VI - GENERAL COMMENTS AND OBSERVATIONS

An analysis of the statutory basis for, and the policies underlying, these programs in the aggregate by Congress, or by another panel, has the potential to offer new insights into the issues surrounding income support for servicemembers who become disabled or chronically ill while on active duty.

Troops to Teachers

The Troops to Teachers (TTT) program was designed to help former military personnel enter public education as teachers. The program arose from a provision included in the National Defense Authorization Act for FY1993 in response to the need to provide career alternatives for servicemembers who might be released from active duty as a result of military downsizing.

TTT is attracting the types of individuals needed in public education while meeting the demand for additional teachers in subject and geographic areas of need. The program has been successful in bringing dedicated, mature, experienced individuals into the classrooms where they have proven not only to be effective teachers but also excellent role models for students. The program has assisted more than 3,000 former military and civilian employees in beginning new careers in public education. TTT has established a highly effective “pipeline” for assisting military personnel, primarily those retiring from active duty, in transitioning to a new career in public education.

With the pressing need for competent, effective teachers for the Nation’s classrooms and the need to provide avenues for military personnel to make a successful transition to an important second career, TTT is a highly efficient, cost effective program. TTT should be maintained as an integral part of Department of Defense transition efforts.

Insurance Reimbursement

Under current law, when VA treats a veteran covered by health insurance, it can bill the insurance company in some cases but not in others. If VA could bill for all care, without regard to whether the condition is service-connected, VA could collect up to an additional \$49 million each year in third-party reimbursements. Veterans with service-connected disabilities would not be charged for their care and VA's revenue would come from health insurance already paid for by the veteran or his or her employer. The Commission believes that the additional income would enable VA medical facilities to provide more care to more veterans. The Commission also believes that the beneficial effect would be maximized if receipts were retained at the medical facility providing the care.

Financial Incentives

The Commission believes that DoD MTFs do not have a strong incentive to identify or implement management initiatives or innovations that would make their medical operations more cost-effective because savings are not retained for use by the facility, but rather are rolled up by headquarters activities to address priorities elsewhere. The Commission believes that MTFs would have more incentive for cost-effective operations if they were permitted to retain for local use a percentage of any resources they save.

Public Health Service

It was noted that, during the buildup for the 1990-1991 Persian Gulf War, Public Health Service (PHS) providers were not available for call-up because of the difficulty in providing healthcare services to PHS beneficiaries if PHS providers were deployed to Southwest Asia. The Commission notes that members of the Commissioned Corps of the PHS are eligible for veterans' benefits on the same basis as members of the Armed Forces. The mission of PHS providers is primarily to support Indian Health Service and the Bureau of Prisons. They are essentially nondeployable because there are no replacements for PHS providers if they are deployed. The Congress may wish to evaluate the conditions of service of the Commissioned Corps to determine if PHS service is comparable, for veterans' benefits purposes, to service in one of the Armed Forces.

Veterans Transition Benefits: A Global Perspective

How do the United States military transition services and veterans' benefits package compare with other industrialized countries?

The Commission conducted a comparative analysis of the similarities and the differences of the transition benefits and services packages of the United States and six industrialized democracies: Australia, Canada, Germany, the United Kingdom, Israel, and Japan. Germany and Israel are the only countries of the six that have conscription.

Analysis

Like the United States, these countries face the twin challenges of the end of the Cold War and the gradual decline of big government. The end of the Cold War is making it more difficult to secure public support to provide resources for national defense, and the decline of big government is leading to diminished public expenditures for various social programs. Although the other countries do have larger social welfare programs, including National Health Care, they are also exploring ways to reduce program costs, to include privatization.

Who is entitled to benefits?

The definition of the word "veteran" is important because it affects benefits; how countries make policy; and to whom they furnish benefits.

The United States has a liberal definition of a veteran.²⁶⁹ In Australia, a veteran is someone who has served in an operational area designated by Parliament, typically in another country. Canada makes a distinction between veterans and ex-servicemembers. Veterans are members of the Canadian Forces and high-seas Merchant Navy who served either during the World War I, World War II, or the Korean War. Ex-servicemembers are known as retired or former members of the Regular or Reserve Force. In Germany, "veteran" is not a legal term. In the United Kingdom, veteran refers to someone who has separated from the military. No

²⁶⁹Eligibility for most VA benefits is based upon discharge from active military service under other than dishonorable conditions. Department of Veterans Affairs, Federal Benefits for Veterans and Dependents, 1997 edition, p. 1.

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British military agency becomes involved in assisting veterans with vocational rehabilitation, health, employment, education, housing, life insurance, burial benefits, and small business. There is no Department of Veterans Affairs in the United Kingdom. In Israel, the Ministry of Defense and the Israeli Defense Forces provide benefits for career and non-career soldiers when they retire. In Japan, a veteran is someone who served in the Self-Defense Forces and World War II ex-servicemembers.

Pre-Separation Counseling Programs

In the United States, pre-separation counseling consists of developing an individual transition plan, considering the effects of career change, employment assistance, relocation assistance, education/training benefits, health and life insurance, financial benefits, Reserve affiliation, and disability benefits.

Although all countries offer pre-separation counseling, Australia, Germany, the United Kingdom, and Israel start their programs earlier than the United States. In Australia, counseling can begin as early as three years prior to the expected date of discharge. Pre-separation counseling programs help facilitate the soldier's return to civilian life.

Canada operates a program called Second Career Assistance Network (SCAN). SCAN is the main transition service available to Canadian Forces personnel. Germany accords temporary-career volunteers counseling in vocational matters. Japan has a number of reemployment support measures to help their transitioning servicemembers. The SDF offers vocational training and management training.

In the United Kingdom, military personnel must have completed at least five years service to qualify for this benefit. Counseling usually begins two years prior to separation. In Israel, transition starts one year before separation from service.

Employment Programs to Include Job Counseling, Job Training, and Placement

The United States conducts transition programs that teach servicemembers job search skills such as resume writing. The United States DOL has an electronic job and resume bank just for servicemembers. In addition, DOL operates a large separate job and talent bank for veterans. State employment agencies in the United States give veterans first opportunity for job openings. There are employment specialists stationed in the 1,800 employment agencies solely to help veterans. The United States offers job training programs designated to assist veterans.

In Australia, the most important features of the Resettlement Scheme include courses such as plant operator training, small business management, computer training and certified network engineer training. Other features include outplacement counseling and/or on-the-job training; approved absence for job-seeking and associated matters; and financial assistance under the Services' Vocational and Educational Training Scheme.

Canada offers seminars and workshops on job search, resume writing and interviews for jobs. Israel conducts an open house for transitioning soldiers. The Retirement Department conducts workshops in employment, training, and finances.

Germany provides counseling for servicemembers in their first year of service to help them develop a career plan that will lead to employment when they reenter civilian life. This counseling plan takes into account the servicemembers educational background and military training. Government agencies reserve a certain percentage of jobs for qualified ex-servicemembers.

The United Kingdom offers transitioning soldiers an opportunity to interview with counselors who are in contact with employment agencies. Noncommissioned personnel must attend these interviews. The Ministry of Defense with the help of a private employment agency known as Services Employment Network runs a marketing campaign entitled *Access to Excellence*. The purpose of the campaign is to make the public aware that the skills and experience of servicemembers are transferable when they seek employment in the civilian workforce. Servicemembers can attend transition briefings on job seeking, interviewing and resume writing.

Japan offers transitioning servicemembers occupational aptitude tests, technical, and management courses, as well as occupational guidance and correspondence education.

Educational Assistance Programs

Veterans' educational benefits in the United States are the most generous. The United States provides 36 months of benefits for post-secondary education, plus on-the-job training, apprenticeship, flight training and correspondence courses, plus educational benefits for certain dependents. Veterans' benefits are for ten years from the date of the veteran's last discharge or release from active duty.

Australia provides financial assistance to servicemembers who take off-duty courses to prepare for reentry into civilian life. Australia offers educational assistance, in the form of vocational rehabilitation, to veterans in need of special assistance to obtain or hold suitable employment. Its Department of Veterans' Affairs administers a Veterans' Children Education Scheme that provides assistance in the form of an education allowance, guidance and counseling to eligible dependents of certain veterans.²⁷⁰

Germany offers educational assistance to its military personnel who have served eight or more years. These servicemembers can attend the Federal Armed Forces School of General Vocational Education in the last 15 months of their term of military service. Servicemembers who have been in the military 12 or more years can participate in training in the last 24 months of their term of service. While attending school, these servicemembers are exempt from military service.

In Israel, officers are entitled to study for an executive MBA. Non-Commissioned Officers can qualify for vocational training. Upon completion of mandatory service, noncareer soldiers in Israel receive a sum of money that can be used for either academic or nonacademic studies.

²⁷⁰Those eligible are children under 25 of either deceased veterans, whose deaths were war-caused, Australian mariners or members of the Australian Defence Forces who were former Australian prisoners of war or veterans who were totally and permanently incapacitated. Also eligible for benefits are children whose parents have both died, but one parent had operational service. Commonwealth of Australia, Pensions, <http://www.dva.gov.au>.

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In Canada, the SCAN program provides servicemembers with retraining/education upgrading for up to one year after release. Japan has expanded and improved its vocational training programs to help transitioning military personnel find employment in the private sector. The United Kingdom does not offer educational assistance to either its transitioning servicemembers or veterans.

Vocational Rehabilitation and Training Programs

In the United States, veterans are eligible for 48 months of vocational rehabilitation over 12 years for compensable service-connected disabilities that impair employment. Australia, Canada, Germany, and Israel also give high priority to disabled veterans and provide vocational rehabilitation benefits. The United Kingdom and Japan do not offer vocational rehabilitation assistance to their veterans, but as citizens of those countries, veterans can obtain these benefits through programs for the general population.

Housing Loan Program

The United States Department of Veterans Affairs guarantees home loans to qualified veterans. Veterans can purchase homes valued at \$203,000 without a down payment. Australia offers either subsidized housing or low-interest loans to eligible veterans. Israel, Canada, Germany, the United Kingdom and Japan do not provide home-loan benefits.

Small Business Loan and Assistance Programs

In the United States, the SBA has statutory authority to give special consideration to veterans. The SBA's Office of Veterans Affairs provides guidance, assistance and training to veterans who want to establish businesses.

Australia, Canada, Germany, and Israel provide some form of small business loans and assistance programs; the United Kingdom and Japan do not do so.

In Australia, transitioning servicemembers can obtain approval for small business management courses if they make a commitment to buy or manage a small business.

In Canada, under very specific circumstances, the government provides veterans with financial assistance to start a small business. Self-employment, is an option that is supported only when circumstances are such as to preempt the individual from being able to access employment in the marketplace.

In Israel, the Ministry of Defense refers noncareer soldiers to a special agency that for a small fee gives professional advice about opening a business. Israeli career soldiers are allowed to borrow on their future pensions to start a business. Released noncareer servicemembers who start a small business are entitled to request financial assistance from a fund created to help soldiers transition to civilian life.

Retirement and Disability Compensation

All countries offer some type of retirement or disability compensation programs.

In the United States, disability compensation is paid to veterans who are disabled by injury or disease that occurred during active duty. Monetary benefits, which are tax free, depend upon the amount of disability caused by the injury or disease.²⁷¹ Since 1986, servicemembers

receive 2.5 percent of the average of high-3 years of basic pay multiplied by the number of years in service less 1 percent of each year less than 30 years of service (40 percent at 20 years).

Australia recently has revised its compensation scheme for military personnel and dependents. Compensation amounts and criteria for compensation go back to The Defense Act of 1903. Compensation was inadequate under this Act due to its age and methodology. These changes include an increase in the severe injury lump sum payment from approximately \$130,000 (equivalent to \$90,000 US) to \$200,000 (\$133,000 US) and \$50,000 (\$34,000 US) for each dependent child of a member who dies or is severely injured.

With respect to retirement, all new Australian Defense Force servicemembers must join the Military Superannuation and Benefits Scheme (MSBS). Rather than adjusting the existing retirement plan, the government decided to create a new plan to “better serve the needs of all Defense Force personnel into the 21st century.”²⁷² MSBS benefits consist of two parts: a.) a member benefit made up of two-weeks contributions and the interest they earn and b.) an employer benefit which is the Australian Government’s contribution. The servicemember’s benefit is available as a lump sum when the individual leaves the MSBS, but the employer benefit is not available until the servicemember retires from the military at or after 55.²⁷³ The employer benefit can be taken either as a lump sum or an indexed pension. An individual does not have to take the member benefit when he or she retires from the military. A servicemember may leave his or her benefit in the retirement fund until age 65.

In Canada, the Canadian Forces Superannuation Act provides a pension for eligible members of the Canadian Forces. Both the government and the servicemember fund the pension. Annuity benefits are two percent of service, of the highest six years average salary, for a maximum of 35 years of service. For voluntary release (less than 20 years), a lump sum is paid to transitioning servicemembers. Canada provides disability pension benefits under one of two principles: the Insurance Principle and the Compensation Principle.

In Germany, the Constitution states that all retirement and other benefits received as a result of military service must be paid through the civil government, not the military. The amount of pension is based on salary and years of service.

In the United Kingdom, to qualify for a full immediate pension, officers must either serve 16 years or reach age 38. Enlisted servicemembers must serve either 22 years or reach age 40. The pension is incremented according to the number of completed years of service and rank attained. In addition, a tax-free lump sum is provided equivalent to three times the annual pension that would be paid to servicemembers qualifying for an immediate pension. The Department of Social Security can pay pensions to individuals with disabilities. All citizens of the United Kingdom can qualify for these benefits, veterans receive no special consideration.

In Israel, a career soldier can usually retire at the age of 40 ½ years with at least ten years of service. The amount of retirement paid is 30 to 75 percent of a full salary based on rank at retirement and length of service up to 24 years. Israel gives high priority to disabled veterans and the Ministry of Defense’s Department of Rehabilitation assists in all areas of life. Some

²⁷¹Department of Veterans Affairs, Federal Benefits for Veterans and Dependents, 1997 Edition

²⁷²Australian Government Publishing Service, The MSBS Book, Military and Superannuation and Benefits Scheme, p. 1.

²⁷³Ibid. p. 2.

CHAPTER VI - GENERAL COMMENTS AND OBSERVATIONS

examples: placement of jobs, housing, financial aid for disabled veterans who want to set up a business, financial assistance for academic studies if admitted to an accredited or recognized university, medical care, reductions in taxes, grants, money for clothes, and elevators for paralyzed soldiers who live in two-story homes. As of January 1996, new cases, which have 20 percent or more disability, get pensions plus rehabilitation benefits. Those who have less than 20 percent disability receive a lump sum.

In Japan, under the Pension Law, commissioned officers are treated as civilian officials and noncommissioned officers as police and prison officials. If an ex-servicemember fails to apply for a pension within seven years of qualifying, pension rights will expire. The pension may include an old-age basic pension, an additional pension, disability annuities, special disability pensions, and disability benefits. The annuities and pensions are paid annually, but the disability benefits are lump-sum payments.

Health Care

The United States Department of Veterans Affairs offers hospital, outpatient, nursing home and domiciliary care primarily to service-disabled and low-income veterans. Australia, Canada, Germany, the United Kingdom, Israel and Japan have a National Health Care system.

Australia and Canada recently closed their veterans' hospitals. In Australia, the closing will result in savings of one billion dollars over ten years. In Canada, if the Ministry of National Defense agrees to reimburse the cost of health care, Veterans Affairs Canada will provide health care benefits to ex-servicemembers who were hospitalized at their time of discharge, for up to one year. Veterans Affairs Canada is exploring ways to be more responsive during a soldier's transition period. Veterans Affairs Canada has three main health care programs: health care benefits program, veterans independence program, and the long-term care program.

"Lump-Sum" Payments

The United States does not offer disability lump-sum payments whereas Australia, Canada, Germany, the United Kingdom, Israel and Japan provide various types of such benefits.

Summary

- ◆ The comparative study highlights the overall superiority of America's veterans' benefits and transition assistance vis-à-vis the systems of other major industrialized nations. The United States started from a stronger position than the other six countries at the end of World War II, and that is reflected in its broader definition of a veteran and its willingness since World War II to furnish a wide array of benefits.
- ◆ Overall the United States serves as a model for other countries based on the depth and breadth of the United States' benefits.
- ◆ The success of the Commission's Global Perspective Roundtable suggests the importance of repeating these exchanges in the future.

APPENDICES

Appendix A	Scope of Work
Appendix B.....	Cost Support Data

In conjunction with the work done by the Commission, several studies and a survey were conducted on various issues. Studies included the following:

- ◆ A “blue ribbon” group of healthcare experts examined healthcare issues and provided recommendations to the Commission. Healthcare Advisory Group Report to Commission, June 11, 1998.
- ◆ Dyncorp studied the barriers to veterans’ employment presented by civilian licensure, certification, and apprenticeship requirements. Barriers to Veterans Employment presented by Civilian Licensure and Certification, June 4, 1998.

The survey included the following:

- ◆ The Gallup Organization surveyed servicemembers, veterans, and employers on various issues. National Survey of Servicemembers, Veterans, Disabled Veterans and Employers Concerning the Transition from Military to Civilian Life, November 17, 1998.

◆

Copies of these studies and survey can be obtained through the Commission’s Web Site:
<http://web9.whs.osd.mil/>

APPENDIX A - SCOPE OF WORK

GENERAL

Establishment of Commission

The Commission on Servicemembers and Veterans Transition Assistance was established by title VII of the Veterans' Benefits Improvement Act of 1996 (Public Law 104-275). The Commission was composed of 12 members, 4 appointed by the House Committee on Veterans' Affairs, 4 by the Senate Committee on Veterans' Affairs, 2 by the House Committee on National Security, and 2 by the Senate Committee on Armed Services. Commissioners represented appropriate and diverse experiences, expertise, and historical perspectives on veterans, military, organizational, and management matters. In addition, the following were appointed as nonvoting members of the Commission: the Under Secretary for Benefits of the Department of Veterans Affairs, the Assistant Secretary of Defense for Force Management and Personnel, and the Assistant Secretary of Labor for Veterans' Employment and Training.

Duties

The Commission was charged to examine thoroughly a broad range of federal programs that provide transition assistance and benefits to separating servicemembers and veterans with a view to ensuring their adequacy to meet not only the full spectrum of today's needs but also the foreseeable needs of the next century. The Commission also was to review the allocation of program administration responsibility among the various departments and agencies of the government and determine the feasibility and desirability of consolidating that administration. Finally, the Commission was to make recommendations to Congress regarding the need for improvements in the programs reviewed.

Guiding Principles

The Commission developed seven guiding principles in open session at its organizational workshop at the Airlie Center in April 1997. These principles not only set the direction for the Commission's data collection and analysis, but guided the performance of its overall congressional charge:

- ◆ Cover, at a minimum, the programs to assist members of the Armed Forces and veterans specified in Public Law 104-275, but interpret the scope of the Commission's charter broadly.
- ◆ Be bold. Take advantage of the opportunity to say what needs to be said.
- ◆ Work on the central issues, not at the margins.
- ◆ Take the long-term view. Focus on how transition assistance and benefits can meet the needs of the 21st century.
- ◆ View veterans and servicemembers as a unique, important national resource and consider how best to take advantage of this resource.
- ◆ Consider how well the programs are administered as well as their substance.

- ◆ Consider the various categories of veterans and separating servicemembers and ensure a continuum of appropriate programs, services, and benefits for each of those categories.

Vision

For the 21st century, the Commission envisions America capitalizing on its investment in the unique national resource of its military personnel and fulfilling its obligation to those who have served. To achieve this vision, Congress must -

- ◆ Provide the tools and opportunity to transition the talent and ability represented by servicemembers into America's economy.
- ◆ Meet the needs that result from the special conditions of military service.
- ◆ Support the Nation's ability to raise and maintain effective forces.

COMMISSION STRUCTURE

The authorizing legislation encouraged the Commission to establish panels composed of less than its full membership to carry out the Commission's duties, with the actions of those panels being subject to the review and control of the Commission. The following three panels were formed:

- ◆ *Healthcare* - Chaired by Commissioner Priore, with Commissioners Chavarrie Wincup and.
- ◆ *Servicemembers and Employment* - Chaired by Commissioner Drach, with Commissioners Blecker, Chavarrie, Harvey, and Stephens.
- ◆ *Veterans Benefits* – Co-Chaired by Commissioners Davis and Johnson, with Commissioners Fleming, and Jehn.
- ◆ Commission professional staff was experienced in the areas reviewed, having spent their military or civil service careers administering and overseeing the various programs reviewed. The Departments of Defense, Veterans Affairs, Labor, and Housing and Urban Development assigned program experts to assist the Commission. DoD also detailed personnel from each of the Military Services for additional support.

ACTIVITIES

Over a period of 18 months, Commissioners and staff spoke with thousands of people and traveled around the world as part of a comprehensive assessment of wide-ranging, complex issues. The views of program participants and administrators in the trenches were heard, as were the concerns of agency officials, the opinions of noted subject-matter experts, and the views of a variety of interest groups.

Information gathering on separate areas of the Commission's wide-ranging charge was the province of the panel with responsibility for the appropriate area. Attendance at public sessions, however, involved all Commissioners who were available and staff. The entire Commission met regularly to discuss the status of panel activities and matters of general direction and policy. The following activity was considered by the entire Commission as affecting all three panels:

Hearings

To gain an overview, the Commission held hearings concerning -

- ◆ The roles and missions of the Departments of Defense (DoD), Veterans Affairs (VA), Labor (DOL), and Small Business Administration at which top department and program officials presented operational overviews and practical insights;
- ◆ Healthcare, with top program officials from DoD and VA; and
- ◆ Forecasts for the 21st century, at which speakers from the public policy institutes, DoD, the Office of Personnel Management, and the mortgage community outlined expectations for the future and made suggestions to prepare for it.

Survey

In addition to hearings, round table sessions, and site visits, the Commission engaged the Gallup Organization to conduct a customer survey. The Commission arranged for the Gallup organization to conduct a customer survey. The Commission was interested in the opinions and experiences of a representative sample of:

- ◆ Servicemembers who expected to leave the military 6 months from the time of the survey and participated in the transition assistance program;
- ◆ Veterans who had left the military between 6 months and 5 years before the survey, with distinctions between the view and experiences of short-term and long-term veterans;
- ◆ Disabled veterans who were registered with the VA; and
- ◆ Employers across the United States.

The Gallup survey was undertaken with an earnest desire to gather the views, regarding transition issues, from a large number of separating servicemembers and already separated veterans that, to our knowledge, has never been done on this scale previously. Our original intent was to add this survey data to the views and opinions collected by our Commissioners and staff.

Despite the best efforts of staff, VA, and DoD the data collected was not completed in time to be incorporated in to this Report. Although it was our desire to use the survey data to either confirm or dispute the Commission's findings and recommendations, it was never the Commission's intent to rely on it exclusively. Our dilemma at the last minute was whether to use the Gallup data in the Report without regard to the fact that there was no time to weigh the data according to existing demographics or to analyze it.

The choice not to use the unweighted survey data was made so as not to in any way misrepresent the data. This decision was admittedly not an easy one, but it was made in the interest of the integrity of our Report. We will provide the data files to the departments for their further analysis and weighting. They will glean the value from what we believe to be a rich database of information. It also provides the basis for longitudinal studies in the future.

HEALTHCARE PANEL

From the outset, healthcare was identified as a major issue for the Commission to consider. The Commission believes that healthcare is intrinsically intertwined in the transition of servicemembers from active duty to civilian life or retirement. Site visits to the field and discussions with servicemembers, veterans, and many military and veterans' service organizations emphasized that healthcare was one of the top priority issues. For this reason, the Commission designated the Healthcare Panel to consider healthcare issues for both servicemembers and veterans.

Two very large federal healthcare systems exist, one run by (DoD) and the other by (VA). The Commission tasked the Healthcare Panel to address the effectiveness and efficiency of these two large healthcare systems and consider increased resource sharing and/or the consolidating services where possible.

Healthcare Advisory Group

The Commission recognized that healthcare is very complex and a thorough investigation of the issues would require expertise beyond that possessed by the Healthcare Panel professional staff. In October 1997, the Commission approved the formation of a Healthcare Advisory Group - a 'blue ribbon' group of eight nationally recognized experts in the field of healthcare and healthcare policy, to examine healthcare issues and provide recommendations to the Commission.

The Healthcare Advisory Group consisted of the following:

- ◆ LTG Quinn Becker, M.D., USA (Ret), former Army Surgeon General & Chief of Staff, Asheville VAMC
- ◆ LTG Edgar Chavarrie, USAF (Ret), Transition Commission Member
- ◆ Molly Coye, M.D., MPH, former State Health Director for New Jersey and California
- ◆ Honorable Willis Gradison, former Congressman & President, Health Insurance Association of America.
- ◆ Honorable James Holsinger, M.D., former VA Under Secretary for Health & Chancellor, Chandler Medical Center, University of Kentucky
- ◆ BG Walter Johnson III, USA (Ret), President, Institute for Diversity in Health Management.
- ◆ Honorable G.V. "Sonny" Montgomery, former Chairman, House Veterans Affairs Committee
- ◆ Tom Scully, former Domestic Policy Advisor to President Bush; President & CEO, Federation of American Health Systems

The role of the Healthcare Advisory Group was to examine healthcare issues and provide recommendations to the Commission. The Healthcare Advisory Group met monthly for 6 months to address healthcare issues and heard briefings from DoD and VA healthcare principals and experts, as well as private sector experts.

Panel Site Visits

- ◆ Mike O'Callaghan Federal Hospital, Las Vegas, Nevada.
- ◆ Addilior B. Guy III VA Ambulatory Care Clinic, Las Vegas, Nevada.
- ◆ Richmond VA Medical Center (VAMC), Richmond, Virginia.
- ◆ Asheville VAMC, Asheville, North Carolina.
- ◆ Walter Reed Army Medical Center, Washington, District of Columbia.
- ◆ VA National Acquisition Center, Chicago, Illinois.
- ◆ Swords to Plowshares, and VA Vet Center, San Francisco, California.
- ◆ Homeless shelter, San Francisco, California.
- ◆ Palo Alto VAMC, Palo Alto, California.
- ◆ David Grant Medical Center, Travis Air Force Base, California.
- ◆ Fort Bragg Medical Treatment Facility, Fort Bragg, North Carolina.
- ◆ Defense Supply Center Philadelphia, Philadelphia, Pennsylvania.
- ◆ Landstuhl Regional Medical Center, Germany.
- ◆ U.S. Naval Hospital, Naples, Italy.
- ◆ Westside Residence Hall, Los Angeles, California.
- ◆ West Los Angeles VAMC, Los Angeles, California.
- ◆ Long Beach VAMC, Long Beach, California.

SERVICEMEMBERS AND EMPLOYMENT PANEL

The Commission assigned the Servicemembers and Employment Panel the responsibility of reviewing the transition programs intended to assist servicemembers at the time of their separation or retirement from the Armed Forces and the employment programs intended to assist both servicemembers and veterans. The Servicemembers and Employment Panel was to determine -

- ◆ The adequacy of the reviewed programs for their purposes.
- ◆ The adequacy of Armed Forces support for transition assistance programs.
- ◆ The adequacy of the reviewed programs' funding levels.
- ◆ The effect, if any, of transition assistance programs on military readiness.
- ◆ The extent to which transition and employment assistance programs provide servicemembers and veterans with job-search skills.
- ◆ The extent to which transition and employment assistance programs prepare servicemembers and veterans for civilian employment.
- ◆ The effectiveness of employment programs in assisting servicemembers and veterans in finding civilian employment.
- ◆ The ways in which transition and employment assistance programs could be improved.

Panel Site Visits

To understand the needs of transitioning servicemembers and recently separated veterans as well as program administrators, it was necessary for Commissioners and staff to visit program sites and talk with the parties involved. At each listed military facility in the United States and overseas, Commissioners and staff met with commanders, program officials, and servicemembers. At U.S. locations, Commissioners and staff met with federal and/or state employment representatives.

- ◆ Army transition program facilities:
 - ❖ Fort Carson, Colorado.
 - ❖ Fort Bragg, North Carolina.
 - ❖ Scofield Barracks, Hawaii.
 - ❖ Camp Casey, Korea.
 - ❖ U.S. Army Europe, Mannheim, Germany.
 - ❖ Headquarters, U.S. European Command, Stuttgart, Germany.
- ◆ Air Force Transition Program Facilities:
 - ❖ Nellis Air Force Base (AFB), Nevada.
 - ❖ Peterson AFB, Colorado.
 - ❖ Pope AFB, North Carolina.
 - ❖ Hickham AFB, Hawaii.
 - ❖ Kadena AFB, Okinawa.
 - ❖ Ramstein AB, Germany.
- ◆ Navy Transition Program Facilities:
 - ❖ Navy Base Norfolk, Virginia.
 - ❖ Navy Base Pearl Harbor, Hawaii.
 - ❖ Yokosuka, Japan.
 - ❖ U.S. Navy Europe, Naples, Italy.
- ◆ Marine Corps Transition Program Facilities:
 - ❖ Camp Lejeune, North Carolina.
 - ❖ Marine Corps Base Kaneohe, Hawaii.
 - ❖ Camp Hanson, Okinawa.
- ◆ State Job Service Offices:
 - ❖ Baltimore, Maryland.
 - ❖ Denver, Colorado.
 - ❖ Charleston, South Carolina.
- ◆ National Veterans Training Institute, Denver, Colorado.

Panel Roundtable Sessions

- ◆ Reserve Forces.
- ◆ Coast Guard.

APPENDIX A - SCOPE OF WORK

- ◆ Electronic Labor Market Systems.
- ◆ Accessions and Recruiting.
- ◆ Uniform Services Tax-Deferred Savings Plan.
- ◆ State Job Service Administrators.
- ◆ Unemployment Compensation Payments.
- ◆ Private Sector Placement Service.
- ◆ DOL's "One Stop" Labor Exchange Concept.
- ◆ Employer Forum.
- ◆ State Veterans Employment Specialists.
- ◆ Military Service Personnel Chiefs.
- ◆ National Military Apprenticeship.

PANEL STUDY

The Servicemembers and Employment Panel recognized that the education, training, and experience obtained during an individual's military service benefit the Nation's defense, but also can contribute significantly to a skilled civilian workforce. However, the Panel was concerned that an inability of separating servicemembers to meet civilian credentialing standards often precluded them from realizing the full benefit of their military training and experience.

Little research had been conducted on issues related to the impact of civilian credentialing on transitioning military personnel. To build upon efforts begun by the Department of Labor's Veterans' Employment and Training Service in 1997, the Commission undertook research to identify which enlisted military occupational specialties had civilian counterparts with licensure or certification requirements. As a result of a study conducted for the Commission by DynCorp, whose findings were published in a report entitled *Barriers to Veterans' Employment Presented by Civilian Licensure and Certification*, the universe of enlisted military occupational specialties with corresponding civilian credentialing requirements was defined, enabling the panel to better assess the situation and make constructive recommendations.

VETERANS BENEFITS PANEL

The Commission assigned to the Veterans Benefits Panel the responsibility of reviewing the following veterans' programs to determine their adequacy and effectiveness, the adequacy of their support by VA, the adequacy of their funding levels, and the ways in which the programs could be improved:

- ◆ Educational assistance programs.
- ◆ Rehabilitation and training programs.
- ◆ Housing loan programs.
- ◆ Small business loan and small business assistance programs.
- ◆ Government personnel policies (including veteran's preference policies) and the enforcement of those policies.

- ◆ Veterans' benefits programs.

Panel Site Visits

- ◆ National Veterans Training Institute, Denver, Colorado.
- ◆ United Services Automobile Association, San Antonio, Texas.
- ◆ Defense Manpower Data Center, Arlington, Virginia.
- ◆ Veterans Affairs Regional Office, Washington, D.C.
- ◆ Veterans Affairs Regional Office, Atlanta, Georgia.
- ◆ Veterans Affairs Regional Office, Philadelphia, Pennsylvania.
- ◆ National Headquarters, Paralyzed Veterans of America, Washington, D.C.
- ◆ Israel Defense Forces, Retirement Department, Israel.
- ◆ Arlington National Cemetery, Arlington, Virginia.
- ◆ Army and Air Force Mutual Aid Association, Fort Myer, Virginia.
- ◆ St. Louis Town Meeting, St. Louis, Missouri.

Panel Roundtable Sessions

- ◆ VA Education Benefits.
- ◆ VA Educational Assistance Program.
- ◆ VA Vocational Rehabilitation and Training Program.
- ◆ Secretary of Veterans Affairs Advisory Committee on Vocational Rehabilitation.
- ◆ State Approving Agency and VA On-the-Job Training Benefit
- ◆ Burial Eligibility.
- ◆ Dual Compensation.
- ◆ Housing Loan Programs.
- ◆ Disability Compensation and Medical Retirement.
- ◆ Global Veterans' Benefits.
- ◆ Small Business Assistance.

Chairman

The Chairman met with and spoke before, numerous and diverse audiences of military and veterans organizations – both in and out of government – that serve members of the Armed Forces and veterans.

APPENDIX B – COST SUPPORT DATA

APPENDIX B – COST SUPPORT DATA

ISSUE I.A ENHANCED MONTGOMERY GI BILL

Enhanced MGIB	FY00	FY01	FY02	FY03	FY04
48 -Month Enlisted Trainees (students)	0	955	3,684	13,856	23,578
<u>Costs</u>					
Private - tuition and fees	\$14,759	\$16,014	\$17,375	\$18,852	\$20,454
Total Cost (30% of trainees)	NA	\$3,441,008	\$14,402,138	\$58,772,995	\$108,509,490
Public - tuition and fees	\$2,681	\$2,909	\$3,156	\$3,424	\$3,715
Total Cost (70% of trainees)	NA	\$1,458,500	\$6,104,020	\$24,907,546	\$45,985,942
Books and Supplies	\$476	\$486	\$497	\$509	\$520
CPI (%)	NA	2.2%	2.3%	2.3%	2.3%
Total Cost (all trainees)	NA	\$464,130	\$1,830,948	\$7,052,704	\$12,260,560
Stipend	\$400	\$408	\$418	\$427	\$437
CPI	NA	2.1%	2.3%	2.3%	2.3%
Total Stipend	NA	\$219,173	\$866,201	\$3,328,038	\$5,795,767
Loss of Pay Reduction (from Baseline)	\$182,326,000	\$190,929,000	\$196,665,000	\$197,216,000	\$199,533,000
<u>Reporting Fee =</u>	\$8.00				
Proposed Fee	NA	\$8,404	\$32,419	\$121,933	\$207,486
Baseline	\$1,937,510	\$1,937,510	\$1,931,580	\$2,012,270	\$1,961,650
Baseline Reduction \$7.40	NA	\$7,774	\$29,988	\$112,787	\$191,925
Net Fee Cost	NA	\$630	\$2,431	\$9,146	\$15,561
Sub-Total Cost (in millions)	\$182	\$197	\$220	\$291	\$372
<u>Savings</u>					
Trainees (enhanced programs)	0	955	3,684	13,856	23,578
Baseline Trainees (students)	284,000	283,000	273,200	263,800	259,800
Basic Benefits - Chapter 30	NA	\$3,403,620	\$13,129,776	\$49,382,784	\$84,031,992
VR & C Baseline	\$400,408,000	\$402,764,000	\$406,042,000	\$409,812,000	\$413,773,000
VR & C Savings	NA	\$1,512,945	\$6,093,360	\$23,889,930	\$42,154,176
Kicker (DoD savings)	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000	\$100,000,000
Total Savings (in millions)	\$100	\$105	\$119	\$173	\$226
Sub-Total Net Cost (in millions)	\$82	\$92	\$101	\$118	\$146

Assumptions

48 months of qualifying service.

Enlistment for additional four years qualifies those already serving.

226,000 separates per year.

Program begins in FY00; trainees start becoming eligible in masse in FY04; VA assumptions used for disabled separates in FY01 - 03.

Participation rate of 70% over ten years.

Reporting fees compare baseline to proposal; assumes MGIB fees decrease as enhanced MGIB participation increases.

Reporting fee paid twice for 10% of trainees who switch institutions during the school year.

Services will limit "kickers" as recruiting tool - 15% of the 24,000 per year currently receiving kickers.

3/4 time training for all trainees (historical VA data); 3/4 time applied to tuition and fees, books & supplies; and stipend.

APPENDIX B – COST SUPPORT DATA

Stipend projected for 9 months per year.

Costs for tuition and fees taken from Digest of Education Statistics - U.S. Department of Education.

8.5% annual increase in education cost (historical economic data 1979 - 1997).

30% enrollment in private school @ \$14,759 and 70% in public schools @ \$2,681 (Private school use may increase when cost of tuition is not an issue).

Costs of books assumed to be \$634 and inflated by the CPI in the outyears.

Half of new VR & C eligible participants select MGIB. (Assumes all 10 & 20% & half of the 30% will use MGIB because less VA control is associated with MGIB).

Basic benefits savings computed @528 per month.

Payroll withholding of \$1,200 repealed.

Note: this estimate does not include the Selective Reserve GI Bill (Chapter 1606) or Survivors and Dependent Education (Chapter 35).

ISSUE I.A (CONT'D.) ADDITIONAL AMENDMENTS MONTGOMERY GI BILL

Amended MGIB	FY00	FY01	FY02	FY03	FY04
Costs					
<u>Education Benefit Rate</u>					
Baseline Trainees	284,000	283,000	273,200	263,800	259,800
10/1/98 monthly rate	\$528	\$528	\$528	\$528	\$528
Total 3/4 time	\$1,012,176,000	\$1,008,612,000	\$973,684,800	\$940,183,200	\$925,927,200
Adjusted Baseline +10%	312,400	310,250	296,468	274,938	259,844
Proposed new rate	\$600	\$600	\$600	\$600	\$600
Total 3/4 time	\$1,265,220,000	\$1,256,513,000	\$1,200,695,000	\$1,113,499,000	\$1,052,368,000
Net increase	\$253,044,000	\$247,901,000	\$227,010,000	\$173,316,000	\$126,441,000
Six Month's Withholding	910,000,000	N/A	N/A	N/A	N/A
<u>Advanced Payment</u>					
Trainees	77,000	77,000	77,000	77,000	77,000
4 month advanced payment	\$2,400	\$2,400	\$2,400	\$2,400	\$2,400
Total cost	\$138,600,000	\$138,600,000	\$138,600,000	\$138,600,000	\$138,600,000
<u>VEAP</u>					
Total trainees	348	1021	1660	1989	2397
Avg. benefit payment	\$2,228	\$2,289	\$2,340	\$2,300	\$2,459
Net benefit payments	\$775,344	\$2,337,069	\$3,884,400	\$4,574,700	\$5,894,223
Pay reduction	\$417,600	\$1,225,200	\$1,992,000	\$2,386,000	\$2,876,400
Net VEAP Costs	\$357,744	\$1,111,869	\$1,892,400	\$2,188,700	\$3,017,823
Sub-Total Costs (in millions)					
	\$483	\$398	\$368	\$314	\$268

Assumptions

Program begins in FY00; those who:

- separate prior to enactment and contributed are eligible
- separate prior to enactment, but did not contribute are ineligible
- are active duty prior to enactment and contributed are eligible
- are active duty prior to enactment, but did not contribute are ineligible
- are new accessions after enactment with either 24 or 36 month enlistment are eligible

Adjusted baseline is baseline minus enhanced MGIB trainees.

Participation growth rate of 10% over adjusted baseline.

Stipend projected for 9 months per year.

¾ time attendance.

VA estimates 77,000 trainees eligible for payment advances based on current eligibility.

Advance payments equal double monthly rate and double advancements per semester.

VA estimates 103,323 former VEAP-era participants would be eligible for benefits.

VA estimates 15% of VEAP-era participants will elect MGIB over ten years.

APPENDIX B – COST SUPPORT DATA

VEAP-era participants electing MGIB will pay \$1,200.

Ten year delimiting date for VEAP-era participants from date of enactment.

Absolve any balance of \$1,200 payroll withholding owed by active duty members at time of enactment.

Average payroll withholding for first year enlistees at time of enactment is \$600.

1-Year Net Cost (in millions)	\$565
5-Year Net Cost (in millions)	\$2,370

APPENDIX B – COST SUPPORT DATA

ISSUE I.C STREAMLINE MONTHLY CERTIFICATION FOR MGIB PARTICIPANTS

Streamline Monthly Certification	FY00	FY01	FY02	FY03	FY04
Baseline Trainees	284,000	283,000	273,200	263,800	259,000
Baseline Cost (.55x9)	\$1,405,800	\$1,400,850	\$1,352,340	\$1,305,810	\$1,286,010
Periodic Cost (.55x4)	\$624,800	\$622,600	\$601,040	\$580,360	\$571,560
Internet Support	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Total Savings	\$681,000	\$678,250	\$651,300	\$625,450	\$614,450
1-Year Savings (in millions)					\$0.7
5-Year Savings (in millions)					\$3

Assumptions

\$100,000 annual cost to implement Internet based bi-semester certification.

No increase in over payments because of bi-semester certification.

VA estimated cost to process individual certifications @ \$.55.

VA current certification frequency @ 9 per year.

Periodic certification frequency @ 4 per year.

APPENDIX B – COST SUPPORT DATA

ISSUE II.A IMPROVE SERVICEMEMBERS TRANSITION PROGRAMS & SERVICES

Improve Transition Programs	FY00	FY01	FY02	FY03	FY04
Baseline Participants	238,066	240,163	235,010	234,833	235,000
DoD Baseline	\$39,000,000	\$40,170,000	\$41,375,100	\$42,616,353	\$43,894,844
Proposed Client Services	\$88,356,420	\$91,007,113	\$93,737,326	\$96,549,446	\$99,445,929
Program Assessment	\$250,000	\$257,500	\$265,225	\$273,182	\$281,377
DoD Net Increase	\$49,606,420	\$51,094,613	\$52,627,451	\$54,206,275	\$55,832,463
VA Staff Cost	\$800,000	\$824,000	\$848,720	\$874,182	\$900,407
VA Program Assessment	\$250,000	\$257,500	\$265,225	\$273,182	\$281,377
VA Net Increase	\$1,050,000	\$1,081,500	\$1,113,945	\$1,147,363	\$1,181,784
DoL Baseline	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000	\$2,000,000
DoL Program Assessment	\$250,000	\$257,500	\$265,225	\$273,182	\$281,377
DoL Net Increase	\$250,000	\$257,500	\$265,225	\$273,182	\$281,377
Total Increase	\$50,906,420	\$52,433,613	\$54,006,621	\$55,626,820	\$57,295,624
1-Year Cost (in millions)					\$51
5-Year Cost (in millions)					\$270

Assumptions

Every separating or retiring servicemember will receive eight hours of individual transition services.

Program costs inflated 3% in outyears.

VA annual cost of \$800,000 for stationing four staff overseas.

DoD, VA and DoL to share annual costs of \$750,000 to conduct coordinated program assessment.

Costs of electronic labor exchange programs are reflected in Issue II.d.

APPENDIX B – COST SUPPORT DATA

ISSUE II.B REENGINEER EMPLOYMENT ASSISTANCE FOR VETERANS

Reengineer Employment Assistance	FY00	FY01	FY02	FY03	FY04
Baseline DVOP	80,040,000	\$82,441,200	\$84,914,436	\$87,461,869	\$90,085,725
Proposed VCM	\$90,160,000	\$92,864,800	\$95,650,744	\$98,520,266	\$101,475,874
Increase	\$10,120,000	\$10,423,600	\$10,736,308	\$11,058,397	\$11,390,149
Baseline LVER	\$77,078,000	\$79,390,340	\$81,772,050	\$84,225,212	\$86,751,968
Proposed VEF	\$32,568,000	\$33,545,040	\$34,551,391	\$35,587,933	\$36,655,571
Savings	\$44,510,000	\$45,845,300	\$47,220,659	\$48,637,279	\$50,096,397
VR&C Contract Savings	\$16,000,000	\$16,480,000	\$16,974,400	\$17,483,632	\$18,008,141
Net Savings	\$50,390,000	\$51,901,700	\$53,458,751	\$55,062,514	\$56,714,389
1-Year Savings (in millions)					\$50
5-Year Savings (in millions)					\$268

Assumptions

10% of ES Veteran registrants are eligible for case management services.

Case management eligible veterans receive an average of 5 hours service over a 6-month period.

Chapter 31 participants receive 1 hour of case management services per month.

Recently separated, job ready veterans receive 1 hour of job search assistance.

Veterans Case Manager funding equivalent to 1,610 positions @ average current cost of DVOP position.

1,156 for veterans with employment barriers.

284 for recently separated veterans.

170 for Chapter 31 program participants.

Veterans' Employment Facilitator funding equivalent to 552 positions @ average current cost of LVER positions.

340 positions for TAP workshop facilitation (two for every TAP site).

212 positions for marketing (one for every 100,000 veterans in civilian labor force).

\$16 million annual VA contractor savings in VR&C.

Program funding inflated by 3% in outyears.

Baseline cost from DOL.

Contractor VR&C costs from VA.

APPENDIX B – COST SUPPORT DATA

ISSUE II.C MARKET VETERANS TO EMPLOYERS

<u>Market Veterans</u>	<u>FY00</u>	<u>FY01</u>	<u>FY02</u>	<u>FY03</u>	<u>FY04</u>
Contractor Support	\$7,000,000	\$7,210,000	\$7,426,300	\$7,649,089	\$7,878,562
Staff/Operations	\$2,000,000	\$2,060,000	\$2,121,800	\$2,185,454	\$2,251,018
Member/Employer Travel	\$700,000	\$721,000	\$742,630	\$764,909	\$787,856
Training	\$450,000	\$450,000	NA	NA	NA
Total Costs	\$10,150,000	\$10,441,000	\$10,290,730	\$10,599,452	\$10,917,435
1-Year Costs (in millions)					\$10
5-Year Costs (in millions)					\$52

Assumptions

Program funding inflated by 3% in outyears.

APPENDIX B – COST SUPPORT DATA

ISSUE II.D TARGET ELECTRONIC EMPLOYMENT ASSISTANCE

Target Electronic Employment	FY00	FY01	FY02	FY03	FY04
DoL/ETA Baseline	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
DoL/VETS Implementation	\$133,000	NA	NA	NA	NA
DoL/ETA Operational	\$10,000	\$10,300	\$10,610	\$10,930	\$11,260
Net DoL	\$143,000	\$10,300	\$10,610	\$10,930	\$11,260
DoD Implementation	\$133,000	NA	NA	NA	NA
DoD Operational	\$10,000	\$10,300	\$10,610	\$10,930	\$11,260
Net DoD	\$143,000	\$10,300	\$10,610	\$10,930	\$11,260
VA Implementation	\$133,000	NA	NA	NA	NA
VA Operational	\$10,000	\$10,300	\$10,610	\$10,930	\$11,260
Net VA	\$143,000	\$10,300	\$10,610	\$10,930	\$11,260
Total Costs	\$429,000	\$30,900	\$31,830	\$32,790	\$33,780
1-Year Cost (in millions)					\$0.4
5-Year Cost (in millions)					\$0.6

Assumptions

DoL/ETA will continue to make \$5 million annual capital investments.

DoL/VETS, DoD, and VA will share initial customizing costs of \$400,000 and annual operational costs of \$30,000.

Operational costs inflated by 3% in outyears.

APPENDIX B – COST SUPPORT DATA

ISSUE II.F INCREASE ACCESS TO FEDERAL VETERANS' TRAINING PROGRAMS

Increase Access	FY00	FY01	FY02	FY03	FY04
DoL Baseline	7,300,000	7,300,000	7,300,000	7,300,000	7,300,000
Proposed Funding	\$32,000,000	\$32,000,000	\$32,000,000	\$32,000,000	\$32,000,000
Net Cost	\$24,700,000	\$24,700,000	\$24,700,000	\$24,700,000	\$24,700,000
1-Year Cost (in millions)					\$25
5-Year Cost (in millions)					\$124

Assumptions

Increased funding level based on FY98 State grant proposals and universe of veterans assessed as needing job training.

The policy change regarding dispersal of program funds will not affect program funding.

APPENDIX B – COST SUPPORT DATA

ISSUE II.J ELIMINATE DISINCENTIVES FOR RETIRED MEMBERS OF THE UNIFORMED SERVICES TO OBTAIN FEDERAL CIVILIAN EMPLOYMENT

Eliminate Disincentives	FY00	FY01	FY02	FY03	FY04
New Participants	249	249	249	249	249
Terminations	0	49	49	49	49
Total Participants	249	449	649	849	1049
Average Monthly Offset	\$717	\$735	\$753	\$772	\$791
Annual Offset	\$2,142,396	\$3,960,180	\$5,864,364	\$7,865,136	\$9,957,108
1-Year Costs (in millions)					\$2
5-Year Costs (in millions)					\$30

Assumptions

Five-year average (1993 - 1997), 249 retired officers entered federal employment (per DMDC).

Five-year average (1993 - 1997), 49 retired officers left federal employment (per DMDC).

Five year average (1993 - 1997), \$717 individual monthly offset (per DMDC).

Outyears assume 2.5% inflation (per OPM differential between COLA increase and pay increase is.005).

APPENDIX B – COST SUPPORT DATA

ISSUE III.A PROVIDE TRANSITION HEALTHCARE FOR RECENTLY SEPARATED SERVICEMEMBERS AND THEIR FAMILIES

Provide Transition Healthcare	FY00	FY01	FY02	FY03	FY04
120 Days Single					
Enrollment	9,100	15,138	21,175	27,213	33,250
Total Premium	\$405	\$441	\$479	\$521	\$566
Beneficiary Share	\$41	\$44	\$48	\$52	\$57
DoD Share	\$365	\$397	\$431	\$469	\$505
Total DoD Cost for Single	\$3,320,644	\$6,004,529	\$9,129,845	\$12,753,986	\$16,939,115
120 Days Family					
Enrollment	25,400	37,425	49,450	61,475	73,500
Total Premium	\$1,688	\$1,835	\$1,995	\$2,168	\$2,357
Beneficiary Share	\$338	\$367	\$399	\$434	\$471
DoD Share	\$1,350	\$1,468	\$1,596	\$1,735	\$1,885
Total DoD Cost for Family	\$34,302,416	\$54,939,201	\$78,907,152	\$106,629,692	\$138,578,706
Total Net Annual DoD Cost	\$37,623,059	\$60,943,730	\$88,036,997	\$119,383,679	\$155,517,821
1-Year Costs (in millions)					\$38
5-Year Costs (in millions)					\$462

Assumptions

Premium growth per year - 8.7%.

Premiums set as indicated in recommendations, different from current CHCBP and TRICARE retiree premiums.

Beneficiary share of single premium - 10%.

Beneficiary share of family premium - 20%.

DoD projected annual enrollment for single coverage between 9,100 and 57,400.

DoD projected annual enrollment for family coverage between 25,400 and 121,600.

Commission annual enrollment assumption starts at low end (9,100 single and 25,400 family) and increases incrementally to the mid point in year five (33,250 single and 73,500 family).

Beneficiaries pay 102% of total costs in premiums for additional 14 months enrollment. No cost to DoD.

Significant increase in enrollment (current CHCBP enrollment = 714) due to significant discount in premiums(current CHCBP premiums = \$933 single, \$1,996 family)

Administrative savings from consolidating CHCBP contract with TRICARE contract offset by costs of contract changes and added administrative costs within TRICARE contract.

Increased size of enrollment pool will mitigate DoD's current annual subsidy of \$5 million.

APPENDIX B – COST SUPPORT DATA

ISSUE III.C USE COMBINED PURCHASING POWER FOR MEDICAL PRODUCTS

Use Combined Purchasing Power	FY00	FY01	FY02	FY03	FY04
Items (\$000)					
DoD Pharmaceuticals	\$756,337	\$763,900	\$771,539	\$779,255	\$787,047
Adjust DoD for military unique pharmaceuticals	\$733,647	\$740,983	\$748,393	\$755,877	\$763,436
DoD Medical and Dental Supplies	\$570,062	\$587,164	\$604,779	\$622,922	\$641,610
DoD Other Supplies (excludes Equipment)	\$265,571	\$268,227	\$270,909	\$273,618	\$276,354
Total DoD	\$1,569,280	\$1,596,374	\$1,624,081	\$1,652,417	\$1,681,400
VA Medical and Dental Supplies					
VA Medical and Dental Supplies	\$279,287	\$282,080	\$284,901	\$287,750	\$290,627
VA Pharmaceuticals	\$1,593,881	\$1,609,820	\$1,625,918	\$1,642,177	\$1,658,599
VA Other Supplies (excludes equipment)	\$751,101	\$576,812	\$582,580	\$588,406	\$594,290
Total VA	\$2,444,269	\$2,468,711	\$2,493,399	\$2,518,333	\$2,543,516
Savings (\$000)					
DoD Surcharge Savings	\$5,869	\$5,928	\$5,987	\$6,047	\$6,107
Pharmaceutical Savings (VA and DoD)	\$232,753	\$235,080	\$237,431	\$239,805	\$242,203
Supply Savings	\$134,882	\$137,143	\$139,453	\$141,816	\$144,230
Total Efficiencies gained	\$373,504	\$378,151	\$382,872	\$387,668	\$392,541
1-Year Savings (in millions)					\$374
5-Year Savings (in millions)					\$1,915

Assumptions

Medical supply information based on FY1997 actual, per DHPRDB.

Pharmaceutical information taken from IG Audit Report 98-154.

Out years assume inflation rate of 1%.

VA data based on FY97 actual from VA/A.M.

Adjust DoD medical supplies and pharmaceuticals for military unique items by 3%.

DoD surcharge savings from pharmaceutical and supply of .8% from IG report.

Assume additional 10% pharmaceutical savings for higher volume purchasing.

Assume universal product numbers will yield 8% savings.

APPENDIX B – COST SUPPORT DATA

ISSUE III.F INCREASE VA'S USE OF DoD'S TRICARE FOR SELECTED VA MEDICAL SERVICES

Increase VA's use of DoD's TRICARE	FY00	FY01	FY02	FY03	FY04
A) DoD and VA pilot the use of TRICARE contracts for the Fee Program.					
<u>Baseline</u>					
Current Fee Program estimate (in millions)	\$246	\$253	\$261	\$271	\$282
(based on CMAC/RBRVS rates: excluding long term care)					
<u>Factors</u>					
Avg. TRICARE discount from CMAC rates	5%	5%	5%	5%	5%
% of Fee Program that would use TRICARE provider	25%	25%	25%	25%	25%
<u>Savings</u>					
Revised Fee Program reimbursement (in millions)					
(based on discounted CMAC)	\$3	\$3	\$3	\$3	\$4
1-Year Savings (in millions)					\$3
5-Year Savings (in millions)					\$16

Assumptions

Pilot is nationwide.

Limit current Fee Program baseline to outpatient, hospital and ancillary service components.

Assume VHS nursing home/home health contracts are already competitive, & can't be improved by switching to TRICARE rates.

Average discount used for TRICARE preferred providers varies by region. Assume average savings is 5%.

Without incentives, 75% of veterans using Fee Program will use providers that do not have TRICARE contracts.

No changes in number of patients using Fee Program or in episodes of care.

Funding for Fee Program grows 3 percent per year between FY's 00-02, and 4% annually thereafter.

B) Congress should direct VA to expand care options for CHAMPVA beneficiaries by using the TRICARE concept.					
<u>Baseline</u>					
Current CHAMPVA estimate (in millions) (based on CMAC/DRG rates)	\$103	\$106	\$109	\$114	\$118
Avg. VA cost per CHAMPVA beneficiary	\$1,079	\$1,112	\$1,145	\$1,191	\$1,239
Actual Avg. DoD cost per TRICARE beneficiary (from DoD/HA)	\$1,008	\$1,047	\$1,088	\$1,131	\$1,175
Number of CHAMPVA beneficiaries	95,462	95,462	95,462	95,462	95,462
<u>Factors</u>					
Avg. TRICARE Standard discount from CMAC rates	NA	NA	NA	NA	NA
<u>Costs</u>					
Difference between DoD & VA avg. cost per beneficiary	\$71	\$65	\$57	\$60	\$64
Change in VA's share if it provides same level of health care options as DoD (in millions)	\$7	\$6	\$5	\$6	\$6
1-Year Savings (in millions)					\$7
5-Year Savings (in millions)					\$30

Assumptions

Funding for CHAMPVA grows 3% per year between FY's 99-02, and 4% annually thereafter.

Average costs for DoD TRICARE beneficiary increases 3.9% in outyears.

VA costs would be comparable to DoD TRICARE.

No changes in number of CHAMPVA beneficiaries.

APPENDIX B – COST SUPPORT DATA

ISSUE III.F (CONT'D.) INCREASE VA'S USE OF DoD'S TRICARE FOR SELECTED VA MEDICAL SERVICES

Net Total Savings	\$10	\$9	\$8	\$9	\$10	
1-Year Savings (in millions)						\$10
5-Year Savings (in millions)						\$46

APPENDIX B – COST SUPPORT DATA

ISSUE III.H DELIVER COST-EFFECTIVE HEALTHCARE FOR HOMELESS VETERANS

Healthcare for Homeless Veterans	FY00	FY01	FY02	FY03	FY04
Grant Per Diem Program Baseline	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000	\$5,000,000
Proposed GPDP	\$50,000,000	\$50,000,000	\$50,000,000	\$50,000,000	\$50,000,000
Net increase VA	\$45,000,000	\$45,000,000	\$45,000,000	\$45,000,000	\$45,000,000
Homeless Vets Reintegration Program Baseline	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Proposed HVRP	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000	\$10,000,000
Net increase DoL	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000	\$7,500,000
Total Net Increase	\$52,500,000	\$52,500,000	\$52,500,000	\$52,500,000	\$52,500,000
1-Year Cost (in millions)					\$53
5-Year Cost (in millions)					\$263

Assumptions

Average yearly appropriation for Grant Per Diem program is \$5 million.

Average yearly appropriation HVRP is \$2.5 million.

Eventual undetermined savings will accrue to VA by investing in community-based partnerships to address homelessness.

Conversely, such savings may be used to treat new veteran patients.

APPENDIX B – COST SUPPORT DATA

ISSUE IV.A REFOCUS THE VA'S HOUSING PROGRAM TOWARD VETERANS IN TRANSITION

Refocus the VA's Housing Program	FY00	FY01	FY02	FY03	FY04
Property expenses	\$0	\$4,376,000	\$30,474,000	\$75,853,000	\$125,160,000
Administration - GOE	\$0	\$198,000	\$1,283,000	\$3,419,000	\$5,986,000
Eliminating Vendees	\$2,000	\$9,000,000	\$9,000,000	\$11,000,000	\$12,000,000
Baseline Total	\$2,000	\$13,574,000	\$40,757,000	\$90,272,000	\$143,146,000
Pilot factor 11.1%	\$222	\$1,506,714	\$4,524,027	\$10,020,192	\$15,889,206
1-Year Savings (in millions)					\$0
5-Year Savings (in millions)					\$32

Assumptions

Limiting the proposed changes for one-time use and elimination of the funding fee to accessions after the effective date would have no savings implications over the first five years.

Permanently authorizing Reserve eligibility is budget neutral assuming that the groups' fees adequately pay for defaults.

Savings for pilot testing lenders liquidating foreclosed properties applicable to loans made after the elective date is based on 1/9 of the total.

Savings generated from property expenses come from VA's calculations of the subsidy model.

Vendee savings from estimates in the President's FY99 budget.

GEO expenses are VA assumptions and have been verified by OMB.

APPENDIX B – COST SUPPORT DATA

ISSUE IV.B ALLOW SERVICEMEMBERS TO PARTICIPATE IN THE FEDERAL THRIFT SAVINGS PLAN

Federal Thrift Savings Plan	FY00	FY01	FY02	FY03	FY04
Basic military pay (\$000)	\$32,960,000	\$33,949,000	\$34,967,000	\$36,016,000	\$37,097,000
Contribution rate: 4% (\$000)	\$1,318,400	\$1,357,960	\$1,398,680	\$1,440,640	\$1,483,880
Participation rate	10%	13%	16%	19%	22%
Total contribution (\$000)	\$131,840	\$176,535	\$223,789	\$273,722	\$326,454
Tax Rate	16%	16%	16%	16%	16%
Lost tax revenue (\$000)	\$21,094	\$28,246	\$35,800	\$43,796	\$52,233
1-Year Costs (in millions)					\$21
5-Year Costs (in millions)					\$181

Assumptions

Federal Thrift Investment Board estimates 10% participation rate in first year and an additional 3% each of the next four years.

Composite tax rate of the Armed Forces is 16% per OSD Directorate of Compensation.

Basic Military Pay from President's FY99 budget is \$32 billion.

Payroll projections increase 3% annually.

Average contribution of non-matching TSP participants is approximately 4%.

APPENDIX B – COST SUPPORT DATA

ISSUE IV.C STREAMLINE DISABILITY COMPENSATION PROGRAMS

Streamline Disability Compensation	FY00	FY01	FY02	FY03	FY04
Baseline DoD Physical Evaluation					
Board Examination	26,000	26,000	26,000	26,000	26,000
VA re-examination (90%)	23,400	23,400	23,400	23,400	23,400
Examination cost	\$441	\$454	\$468	\$482	\$496
VA re-examination cost	\$10,319,400	\$10,623,600	\$10,951,200	\$11,278,800	\$11,606,400
1-Year Savings (in millions)					\$10
5-Year Savings (in millions)					\$55

Assumptions

DoD conducts 26,100 Physical Evaluation Board examinations annually.

VA estimates that 90% of PEB examinations are inadequate for VA determinations.

Average cost of VA examinations in FY98 was \$428.

Cost of examinations increased by 3% in outyears.

Administrative cost of the Rating Board would come from current resources.

APPENDIX B – COST SUPPORT DATA

ISSUE IV.F TERMINATE PERSIAN GULF WAR ERA

Terminate Persian Gulf War Era	FY00	FY01	FY02	FY03	FY04
Baseline					
Average pension costs	\$10,001	\$9,937	\$9,831	\$9,728	\$9,626
Current beneficiaries	1,084	1,280	1,476	1,672	1,868
Average survivor costs					
Average survivor costs	\$5,071	\$5,109	\$5,155	\$5,202	\$5,249
Current beneficiaries	210	247	284	321	358
Pension+survivor beneficiaries					
Pension+survivor beneficiaries	1,294	1,527	1,760	1,993	2,226
PG veteran universe (baseline)					
PG veteran universe (baseline)	1,011,828	1,237,828	1,463,828	1,689,828	1,915,828
% currently receiving benefits	1%	1%	1%	1%	1%
Baseline Pension Costs	\$11,905,994	\$13,981,283	\$15,974,576	\$17,935,058	\$19,860,510
Revised PG veteran universe	\$512,832	\$512,832	\$512,832	\$512,832	\$512,832
Proposed Pension Costs	\$6,045,784	\$5,797,805	\$5,600,405	\$5,445,875	\$5,318,450
Savings					
Savings	\$5,860,210	\$8,183,478	\$10,374,171	\$12,489,183	\$14,542,060
1-Year Savings (in millions)					
1-Year Savings (in millions)					\$6
5-Year Savings (in millions)					
5-Year Savings (in millions)					\$51

Assumptions

Average costs and current beneficiaries from FY 1999 budget.

Average age of Persian gulf veterans approximately 40 years; pension costs are expected to increase in the outyears as they age.

Average accession to the veteran rolls is 226,000 per year.

Veterans make up 84% of beneficiaries; survivors make up 16%.

Revised PG veterans universe is the sum of accessions between August 1990 and February 1993.

Savings are overstated to the extent of individuals currently receiving benefits who would otherwise be part of the "dequalified" universe due to the retroactive effective date.

APPENDIX B – COST SUPPORT DATA

ISSUE V.A RESTRUCTURE DoD/VA HEALTHCARE PROCESSES

Restructure DoD/VA Healthcare Processes	FY00	FY01	FY02	FY03	FY04
Estimate					
VA relocation costs (412 FTE x 200 sq. ft. x \$8)	\$800,000	NA	NA	NA	NA
DoD relocation costs (350 FTE x 200 sq. ft. x \$8)	\$700,000	NA	NA	NA	NA
DoD rent costs	\$1,700,000	\$1,700,000	\$1,800,000	\$1,800,000	\$1,900,000
Total relocation costs	\$3,200,000	\$1,700,000	\$1,800,000	\$1,800,000	\$1,900,000
Combined DoD/VA Healthcare budgets (\$000)	\$33,603,068	\$34,611,160	\$35,649,495	\$36,718,980	\$37,820,549
Efficiency factor	0	0	1%	1%	1%
Projected savings (\$000)	\$0	\$0	\$356,495	\$367,190	\$378,205
Net cost/savings (\$000)	\$3,200	\$1,700	(\$354,695)	(\$365,390)	(\$376,305)
1-Year Net Cost (in millions)					\$3
5-Year Net Savings (in millions)					\$1,091

Assumptions

Due to space constraints at the Pentagon and VA Central Office, most staff will relocate to a new site.

The costs of relocation within the Washington, D.C. metro area vary, but an average of the estimates provided by GSA is \$8 per square foot.

Most of the costs are communications-related; moving costs are approximately \$1.50 per square foot.

In addition to this one-time relocation cost, DoD would have recurring rent charges. Unlike VA, DoD currently owns its headquarters and does not presently pay GSA rent for staff stationed in the Pentagon.

Rent increase in cost by 3% per year.

Relocation cost per square foot – \$8

Average square feet per FTE – 250

VHA FTE (excluding Facilities Mgmt.). – 412

DoD FTE (estimated) – 350

Average annual Washington metro area rent per sq. ft – \$37.50

Savings factored at 0% in years one and two, 1% in years three, four and five of total DoD and VA healthcare budgets.

FY99 budgets inflated 3% in outyears.

APPENDIX B – COST SUPPORT DATA

ABBREVIATIONS

ACINet	America's Career InfoNet
ADVET	Assistant Director for Veterans' Employment and Training
AJB	America's Job Bank
ALX	America's Learning Exchange
ARI.....	U.S. Army Research Institute for Behavioral and Social Sciences
ATB	America's Talent Bank
BAT	Bureau of Apprenticeship Training
BLS	Bureau of Labor Statistics
BRAC.....	Base Realignment and Closure
CBO	Congressional Budget Office
CEIS	Corporate Executive Information System
CHAMPUS	Civilian Health and Medical Program of the Uniformed Services
CHAMPVA.....	Civilian Health and Medical Program of the Dept. of Veterans Affairs
CHCBP	Comprehensive Health Care Benefit Program
CHCS	Composite Health Care System
CHCS II	Composite Health Care System II
CLF	Civilian Labor Force
CMOP	Centralized Mail Outpatient Pharmacy
COTS	Commercial off-the-Shelf
CPI	Consumer Price Index
CSRS	Civil Service Retirement System
DANTES	Defense Activity for Non-Traditional Education Support
DCHV	Domiciliary Care for Homeless Veterans
DEERS	Defense Enrollment Eligibility Reporting System
DHCP	Decentralized Hospital Computer Program
DHPRDB	Defense Health Program Resource Data Base
DLA	Defense Logistics Agency
DMDC.....	Defense Manpower Data Center
DoD	Department of Defense
DOL	Department of Labor
DORS	Defense Outplacement Referral Service
DSCP.....	Defense Supply Center Philadelphia
DSS	Decision Support System
DTR.....	Design Team Report
DVET	Director for Veterans' Employment and Training
DVOP	Disabled Veterans' Outreach Program
DWCF	Defense Working Capital Fund
ES	Employment Service
FEHBP	Federal Employees Healthcare Benefits Plan
FHA.....	Federal Housing Administration

ABBREVIATIONS

FSS	Federal Supply Schedules
FTEE.....	Full-Time Employee Equivalent
FY	Fiscal Year
Gallup	The Gallup Organization
GAO	Government Account Office
G-CPR	Government Computer-based Patient Record
GME	Graduate Medical Education
GPD	Grant Per Diem Program
HCHV.....	Health Care for Homeless Veterans
HMLS CWT/TR.....	Homeless Veterans Compensated Work Therapy Program with Transitional Residence
HMO.....	Health Management Organization
HUD-VASH.....	Housing and Urban Development, Veterans Affairs Supported Housing Program
HumRRO.....	Human Resources Research Organization
HVRP	Homeless Veterans Reintegration Projects
IG	Inspector General
HIS	Indian Health Service
IM&T	Information Management and Technology
IRA	Individual Retirement Account
IT	Information Technology
JASC.....	Joint Apprenticeship Steering Committee
JTPA	Job Training Partnership Act
LMI	Logistics Management Institute
LVER	Local Veterans' Employment Representative
MEB	Medical Evaluation Board
MGIB	Montgomery GI Bill
MHS	Military Health System
MOU.....	Memorandum of Understanding
MTF.....	Military Training Facility
NAC	National Acquisition Center
NAPA	National Academy of Public Administration
NIH.....	National Institutes of Health
NNAP	Navy's National Apprenticeship Program
NVTI	National Veterans' Training Institute
OFCCP	Office of Federal Contract Compliance Programs
OMB.....	Office of Management and Budget
OPM	Office of Personnel Management
P&T	Permanent and Total
PEB.....	Physical Evaluation Board
PHS.....	Public Health Service
PRO-NET	Procurement Marketing and Access Network

ABBREVIATIONS

PY	Program Year
REVERE	Rehabilitated Veterans Employment Referral
RO	Regional Office
SAA	State Approving Agency
SBA	Small Business Administration
SC	Service Connected
SDN	Service Delivery Network
SESA	State Employment Security Agency
STS	Specialized Treatment Service
TAP	Transition Assistance Program
TBB	Transition Bulletin Board
TDY	Temporary Duty
TSP	Thrift Savings Plan
TTT	Troops to Teachers
UCX	Unemployment Insurance for Ex-Service Members
UPN	Uniform Product Numbers
VA	Department of Veterans Affairs
VAMC	Veterans Affairs Medical Center
VASIS	Veterans' and Servicemembers Internet Site
VBA	Veterans Benefits Administration
VCM	Veterans' Case Manager
VEAP	Veterans' Educational Assistance Program
VEF	Veterans' Employment Facilitator
VEN	Veterans' Employment Network
VETS	Veterans' Employment and Training Service
VHA	Veterans Health Administration
VistA	VA's computer system (previously known as DHCP)
VMET	Verification of Military Education and Training
VR&C	Vocational Rehabilitation and Counseling
VSI/SSB	Voluntary Separation Incentive/Special Separation Benefits
VWIP	Veterans' Workforce Investment Program
YATS	Youth Attitude Tracking Study